

HOME SOLUTIONS OF AMERICA INC
Form 10KSB
March 31, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-KSB

(Mark One)

Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2005

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-22388

HOME SOLUTIONS OF AMERICA, INC.

(Name of Small Business Issuer in Its charter)

<u>Delaware</u>	<u>99-0273889</u>
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

<u>1500 Dragon Street, Suite B, Dallas, Texas</u>	<u>75207</u>
(Address of Principal Executive Offices)	(Zip Code)

(214) 623-8446

(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act:

<u>Title Of Each Class</u>	<u>Name Of Each Exchange On Which Registered</u>
Common Stock, Par Value \$0.001 per share	The American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, Par Value \$0.001 Per Share
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 No

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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). []

State issuer's revenues for its most recent fiscal year: \$72,348,000

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant (35,902,271 shares of common stock) on March 30, 2006, was approximately \$247,008,000 based upon the closing sale price of the common stock (\$6.88 per share) as quoted on the American Stock Exchange on March 30, 2006. For purposes of this response, officers, directors and holders of 10% or more of the registrant's common stock are considered affiliates of the registrant at that date.

The number of shares outstanding of the registrant's common stock, \$0.001 par value per share, as of March 30, 2006 was 36,023,357 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 9 through 12 and Item 14 of Part III of this Form 10-KSB is incorporated by reference from the registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year ended December 31, 2005.

Transitional Small Business Disclosure Format: Yes _____ No X

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PRELIMINARY NOTE: This Annual Report on Form 10-KSB contains forward-looking statements relating to our goals, beliefs, plans or current expectations and other statements that are not historical facts. For example, when we use words such as "project," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could" or "may," or other words that convey uncertainty of future events or outcome, we are making forward-looking statements. We refer you to the caption entitled "Trends, Risks and Uncertainties" in Item 6 of Part II for important factors that could cause actual results to differ materially from those indicated by our forward-looking statements made in this annual report on Form 10-KSB and in any documents incorporated by reference. Forward-looking statements represent our current expectations and are inherently uncertain. We do not undertake any obligation to update forward-looking statements made by us.

PART I
(Dollars and Shares in Thousands, Except Per Share Data)

Item 1. Description of Business.

Overview

Home Solutions of America, Inc., a Delaware corporation, ("Home Solutions" or the "Company") is a provider of recovery, restoration and rebuilding/remodeling services to commercial and residential areas that are (i) prone to flooding, hurricanes, tornados, fires or other naturally occurring and repetitive weather emergencies; and/or (ii) experiencing robust housing development. Our operations are in the South, Gulf Coast regions and California.

Our business segments consist of three integrated service offerings: (i) Recovery, (ii) Restoration and (iii) Rebuilding/Remodeling. Our Recovery services, which are provided through our wholly owned subsidiary, Home Solutions Restoration of Louisiana, Inc. ("HSR of Louisiana") and, to a lesser extent, through our wholly owned subsidiary, PW Stephens, Inc. ("PWS"), include first response clean up and removal of debris, drying and dehumidification, and preparing affected areas for the next stage of restoration and rebuilding. Our Restoration business segment includes PWS and our wholly owned subsidiary, Fiber Seal Systems, L.P. ("FSS"). Services presently included in our Restoration business segment involve water and fire restoration services, air decontamination, and removal of mold, asbestos and lead paint provided through PWS, and cleaning, drying, and deodorization of carpet and furniture as well as moving and storage services provided through FSS. Our Rebuilding/Remodeling products and services currently consist of the production and installation of custom kitchen cabinets and countertops provided through our wholly owned subsidiary, Southern Exposure Unlimited of Florida, Inc. and its 50%-owned subsidiary, SouthernStone Cabinets, Inc. (collectively, "Southern Exposure") and the installation of custom marble and granite countertops through our wholly owned subsidiary, Cornerstone Building and Remodeling, Inc. ("Cornerstone").

Growth Strategy

Our growth strategy is to target markets that are (i) prone to flooding, hurricanes, tornados, fires or other naturally occurring and repetitive weather emergencies; and/or (ii) experiencing robust housing development, and penetrate these markets through internal growth of our existing operating subsidiaries and a well-executed acquisition program to expand our service offerings. From November 2002 through December 31, 2005, we completed five acquisitions. We recently implemented our initiative to expand into the hardest hit areas of the 2005 hurricane season by forming HSR of Louisiana, a wholly owned subsidiary, and acquiring substantially all of the assets of Florida Environmental Remediation Services, Inc. ("FERS") in September of 2005. Initially, the services provided by these operations will involve the drying, dehumidifying, clean up and removal of debris at many of the hurricane-affected locations prior to commencing Recovery/Restoration Services. We expect the recovery, restoration and rebuilding effort associated with the 2005 hurricanes to happen in stages and last between two to five years. We plan to take advantage of the opportunity to service these areas through each stage with each of our Recovery, Restoration and Rebuilding/Remodeling service offerings.

Service Offerings

Our business consists of three integrated service offerings: (i) Recovery; (ii) Restoration; and (iii) Rebuilding/Remodeling. We believe that the natural progression of our business offerings in markets affected by weather-related emergencies, from Recovery, to Restoration, to Rebuilding/Remodeling, increases our opportunities across all three service offerings.

Recovery

With our recent expansion into the Louisiana area through our completion of the FERS acquisition, we are a first responder to clean up activities after weather-related emergencies. We have significant ongoing operations throughout impacted areas in Florida, Louisiana, Mississippi, and Texas. We and FERS (prior to its acquisition by HSR of Louisiana) also provided recovery services in Florida during the 2004 hurricane season, which we believe will position us to generate revenue in our Restoration and Rebuilding/Remodeling segments in the Florida markets. As of December 2005, we employed approximately 226 trained leased employees who provide onsite first response technical services in these markets through contracts with commercial and residential clients. Our Recovery services include providing initial set up services in an impacted area (including power, lodging, and training) and then providing the drying, dehumidification, cleanup and removal of debris from commercial and residential areas to prepare the areas for the next stage of restoration. We provide these services on an hourly rate to our commercial and residential clients, principally as a subcontractor to customers providing additional services in these markets. We intend to pursue bids on recovery services contracts with insurance agencies and government branches and agencies. Although we believe that we will

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provide recovery services in the future to insurers and government agencies directly or indirectly, there is no assurance that we will win any of these contracts.

Restoration

The following details the types of Recovery/Restoration Services we provide:

Fire and Water Damage Restoration: We provide trained employees to respond to fire, water and weather-related emergencies, to inspect structural members and contents damaged by water, to determine the likelihood or extent of mold growth, and to provide immediate cleaning, drying, moving, storage, and deodorization, among other services. As most cases of mold are associated with excess moisture, we believe that our Recovery services' response to event-related damage will provide additional revenue opportunities for our Restoration segment. The cost and time requirements of restoration projects can vary dramatically from case-to-case.

Indoor Air Contamination: Through PWS, we provide indoor air contamination services, including contamination from mold, asbestos and lead paint to homeowners. With increased media attention regarding the health threat of mold, fewer insurance options, and property transfers at risk, current market conditions have created significant demand for mold inspections, certifications and remediation services. These services consist of property and system inspections, surface and air testing, project design, microbial removal, light interior demolition, repair and specialized cleaning work. Home inspections and testing can range from \$0.2 to \$0.8. For the typical mold-contaminated house, a remediation project can last approximately one week and cost \$10 or more. Customer opportunities are developed through a regional sales force as well as through referrals by real estate firms, insurance adjusters, mortgage companies, attorneys and nationally branded retailers. The Company believes it can use its industry experience to give efficacy to its processes and provide homeowners with quality assurance.

Cleaning and Fabric Protection: Through FSS, we provide fabric protection services to protect furniture, carpet and draperies from stains and daily wear through both Company-owned locations as well as over forty licensed locations. This niche market is primarily targeted at above-average income homeowners with an average ticket of approximately \$0.4. We also provide air duct cleaning services to remove particulate (organic and inorganic) material, which can cause allergic reactions and is often the breeding ground for many types of mold, from heating and air conditioning systems.

Rebuilding/Remodeling

Through Southern Exposure and Cornerstone, we offer cabinet and countertop installation services. Our wholly owned subsidiary, Southern Exposure, manufactures and installs a high-end product line of cabinets and countertops. Our position in this market was strengthened in March 2005 through the acquisition of Cornerstone, which installs custom marble and granite countertops for residential customers. Currently, we manufacture and install cabinets and kitchen countertops for Centex Corp. ("Centex"), a public company homebuilder, in its southwest Florida market. We also install granite countertops for Home Depot, Inc. ("Home Depot") in Florida, Georgia, Alabama and South Carolina, and for Lowes Companies, Inc., ("Lowes") in Florida. The Lowes and Home Depot contracts may be terminated at any time upon notice to us. Furthermore, Home Depot and Lowes are not obligated to use our services under these contracts. We have no contract with Centex, and Centex is not obligated to buy our products or use our services.

It is expected that a portion of our cabinet and countertop installation services will generate additional opportunities across our other business segments. We expect to expand the services provided by our Rebuilding/Remodeling business segment through future acquisitions; however, there is no guaranty that we will expand our services in this segment, or that acquisitions, if completed, will be profitable.

Competition

Recovery: The Recovery services business segment is highly fragmented and evolving. We believe there are relatively few barriers to market entry, because little to no physical infrastructure is necessary. Accordingly, we expect that competition in our Recovery business segment will increase. Currently, our competitors in the Recovery services segment include PDG Environmental, Inc. and RG America, Inc., as well as a number of private companies.

Restoration;Rebuilding/Remodeling. We compete against numerous local providers, as well as national providers, including Steamatic, Inc. and The ServiceMaster Company. Locally, we compete against numerous family controlled operations as well as larger regional operations. Competitors in our specialty cabinet section of our Rebuilding/Remodeling business segment include Masco Corporation and Imperial Industries, Inc. We expect additional competitors as the market for specialty residential services continues to grow and due to the lack of significant barriers of entry into the residential services field.

Regulatory Matters

General

Portions of our operations, particularly our Recovery and Remediation business segments, are highly regulated and subject to a variety of federal and state laws, including environmental laws, which require that we obtain various licenses, permits and approvals. We must obtain and maintain various federal, state and local governmental licenses, permits and approvals in order to provide our services. We believe we are in material compliance with all applicable licensing and similar regulatory requirements. However, we cannot assure you that we can maintain our licenses or registrations in the states in which we currently do business, or that we can obtain licenses or registrations required by any states in which we may desire to expand our business.

Environmental Regulation

Portions of our business are heavily regulated by federal, state and local environmental regulations, including those promulgated under the Environmental Protection Agency. These federal, state and local environmental laws and regulations govern the discharge of hazardous materials into the air and water, as well as the handling, storage, and disposal of hazardous materials and the remediation of contaminated sites. Our businesses may involve working around and with volatile, toxic and hazardous substances and other regulated substances. We are not aware of any federal, state or local environmental laws or regulations that will materially affect our earnings or competitive position, or result in material capital expenditures; however, we cannot predict the effect on our operations of possible future environmental legislation or regulations.

Employees

As of December 31, 2005, we had an aggregate of 483 employees, including leased employees. None of these employees were represented by collective bargaining agreements.

Business Background

Corporate Information

Home Solutions is a Delaware corporation with principal executive offices located at 1500 Dragon, Suite B, Dallas, Texas 75207. Our website is operating at www.homcorp.com. Our Chairman of the Board and Chief Executive Officer is Frank Fradella, our President and Chief Operating Officer is Rick J. O'Brien and our Senior Vice President and Chief Financial Officer is Jeffrey M. Mattich.

Company History; Acquisitions

The Company was incorporated in Delaware on January 8, 1998, for the purpose of serving as the successor corporation of EIF Holdings, Inc., a Hawaii corporation, pursuant to a reincorporation merger that was completed in June 1998. During 1999 and most of 2000, the Company, then named U S Industrial Services, Inc., operated through its wholly owned subsidiaries as a multi-state service company specializing in industrial cleaning services, including soil and groundwater remediation, and hazardous material management and clean up.

From February 2002 until November 2002, the Company, then named Nextgen Communications Corp., had no significant operations.

In September 2002, we adopted a new corporate strategy of acquiring or generating projects that focus on providing specialty residential services to homeowners. In December 2002, in connection with the implementation of our residential services strategy, our stockholders approved a change of our corporate name to Home Solutions of America, Inc. In November 2002, Home Solutions closed its first acquisition as part of this strategy, acquiring PW Stephens, Inc.; a provider of indoor air contaminates removal services for homeowners in California. The aggregate purchase price was approximately \$13,400, which we paid with cash, promissory notes, the assignment of certain promissory notes owed to us, and the issuance of a warrant to purchase 293 shares of our common stock at an exercise price of \$0.01 per share. PWS has a twenty-year operating history of providing indoor air contaminate removal services for residential and light commercial clients.

In July 2003, Home Solutions closed the acquisition of Fiber Seal Systems, L.P., a provider of cleaning and fabric protection services based in Dallas, Texas. FSS provides cleaning and fabric protection services through both company-owned and over 40 licensed locations across the United States. We paid approximately \$1,621 for FSS, including the issuance of 300 shares of our common stock, the issuance of a warrant to purchase 250 shares of our common stock at an exercise price of \$2.00 per share and the issuance of a note for \$520.

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In July 2003, we acquired Central Texas Residential Services, Inc. ("CTRS"). We paid approximately \$769 for CTRS, including the issuance of 850 shares of our common stock. The acquisition of CTRS was rescinded in October 2003; no revenues were generated during this timeframe, and the consideration paid was returned to the Company.

In December 2003, Home Solutions closed the acquisition of Southern Exposure Unlimited of Florida, Inc. and related companies, a provider of cabinet and countertop installation services based in Fort Myers, Florida. The purchase price was approximately \$12,172, including \$2,000 in cash, \$5,968 in promissory notes issued to the seller, \$2,500 in common stock and \$1,704 in acquisition costs. Southern Exposure provides cabinet and countertop installation services to homebuilders and homeowners throughout southwestern Florida.

On March 31, 2005, Home Solutions acquired Cornerstone Building and Remodeling, Inc. Cornerstone, which has headquarters in Fort Myers, Florida, near the headquarters of the Company's Southern Exposure subsidiaries, is engaged in the business of installing custom marble and granite countertops and remodeling projects for residential customers. The purchase price was approximately \$8,079 including \$1,700 in cash, \$1,600 in a promissory note issued to the seller, \$3,335 in common stock and \$1,444 in acquisition costs.

Simultaneously, Cornerstone entered into an Exclusive Supply Agreement with Cornerstone Granite & Marble Wholesale, Inc. (the "Supplier"), an affiliate of Mr. Leeber, whereby Cornerstone committed to purchase its marble and granite inventory exclusively from the Supplier for the next twenty years, and the Supplier committed to provide Cornerstone with pricing based on the Supplier's direct costs plus 20%, or such lower price that the Supplier offers any other customer. We paid \$1,350 in common stock to the supplier as consideration for this agreement.

On September 27, 2005, our wholly owned subsidiary, HSR of Louisiana, acquired substantially all of the assets of Florida Environmental Remediation Services, Inc., a restoration company operating in Florida, Louisiana and Mississippi. The aggregate purchase price for the assets was \$16,461 consisting of (i) an \$11,000 nonrecourse promissory note issued by HSR of Louisiana, which was paid in full in December 2005, (ii) a warrant issued by Home Solutions exercisable for 1,053 shares of common stock, which becomes exercisable at an exercise price of \$0.001 per share when during the period of from September 27, 2005 to September 27, 2006, HSR Louisiana met or exceeded \$20,000 in gross billings related to the acquired assets, which was earned by December 31, 2005 and was valued at \$4,719, and (iii) \$742 in acquisition costs. Additionally, FERS may earn additional compensation in cash or Home Solutions' Common Stock, at the option of HSR of Louisiana, in an amount equal to 10% of the excess of HSR of Louisiana's EBITDA related to the acquired assets that exceeds \$15,000 in each of fiscal years 2006 and 2007.

In connection with the acquisition, on September 27, 2005, HSR of Louisiana entered into a three-year employment agreement and subsequent three-year con-compete agreement with Fernando Nava. Mr. Nava is the former President and Chief Executive Officer of FERS. The company is amortizing the assigned value over six years.

Home Solutions expects to continue its growth strategy by seeking additional strategic acquisitions.

Item 2. Description of Property.

In October 2002, the Company purchased the office building that served at that time as its corporate offices, consisting of approximately 8 square feet of office space, at 11850 Jones Road Houston, Texas 77070. The purchase price of the building was \$1,000, including \$250 paid by issuance to the seller of 152 shares of our common stock and \$750 financed through a first-lien mortgage provided by an affiliate of one of our stockholders. The \$750 note was paid in full in December 2005. In May 2004, the Company moved its corporate headquarters to Dallas, Texas in a leased office building co-located with FSS. In November 2005, the Company and FSS moved their corporate headquarters to their current joint location, a leased office building located at 1500 Dragon Street, Suite B, Dallas, Texas 75207. The lease for our corporate headquarters expires in 2011 with a monthly rate of \$6. The office is suitable for its purposes and is expected to accommodate the Company's needs for the foreseeable future. The Company currently has listed for sale the Houston, Texas building and land, which has a net book value of \$840, and is actively marketing the property.

As of December 31, 2005, PWS leased its headquarters in Huntington Beach, California and had two additional offices in Fremont, California and El Cajon, California. These lease agreements expire in 2006 to 2007. The combined monthly rate for these offices is \$14.

As of December 31, 2005, Southern Exposure leased its headquarters in Fort Myers, Florida. The office, which is suitable for Southern Exposure's need and is in good condition, is leased from the former owner of Southern Exposure, who is now an affiliate of the Company, at a monthly rate of \$10. The lease agreement expires in 2006.

As of December 31, 2005, Cornerstone leased its headquarters in Fort Myers, Florida. The office, which is suitable for Cornerstone's needs and is in good condition, is leased from the former owner of Cornerstone, who is now the President of Cornerstone and an affiliate of the Company, at a monthly rate of \$12. The lease agreement expires in 2006.

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As of December 31, 2005, HSR of Louisiana leased its headquarters in Mandeville, LA and leased a Florida office in Fort Lauderdale. Both of these leased properties are suitable for HSR Louisiana's needs and are in good condition. These lease agreements expire in 2008 and 2006, respectively, with a monthly combined rate of \$15.

Item 3. Legal Proceedings.

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

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

None.

PART II

(Dollars and Shares in Thousands, Except Per Share Data)

Item 5. Market for Common Equity, and Related Stockholder Matters.

Market Prices

The common stock of the Company is traded on the American Stock Exchange listed under the symbol "HOM." The following table sets forth, for the fiscal quarters indicated, the range of the high and low sales prices for the Company's common stock as reported by the American Stock Exchange.

<u>Fiscal Year ended December 31, 2005:</u>	<u>High</u>	<u>Low</u>
Quarter ended December 31, 2005	\$6.70	\$4.36
Quarter ended September 30, 2005	5.29	1.32
Quarter ended June 30, 2005	1.67	1.26
Quarter ended March 31, 2005	1.69	1.47
<u>Fiscal Year ended December 31, 2004:</u>	<u>High</u>	<u>Low</u>
Quarter ended December 31, 2004	\$1.76	\$1.40
Quarter ended September 30, 2004	1.68	1.15
Quarter ended June 30, 2004	1.67	1.30
Quarter ended March 31, 2004	2.10	1.39

Stockholders

As of March 27, 2006, the Company had approximately 169 record holders of its common stock, as reflected on the books of the Company's transfer agent. A significant number of shares were held in street name and, as such, the Company believes that the actual number of beneficial owners is significantly higher.

Dividends

The Company has not established a policy to pay dividends, nor has it paid any dividends on its common stock from its inception. We plan to reinvest all profits in our business, and we do not anticipate that we will adopt any policy to pay dividends in the foreseeable future. Furthermore, the Company's ability to pay dividends to holders of its Common Stock is restricted by the terms of certain financing arrangements. Any payment of dividends in the future will be determined by the Board of Directors in light of conditions then existing, including restrictions imposed by financing arrangements, the Company's earnings, financial condition, capital requirements and debt covenants, and the tax treatment consequences of paying dividends.

Sale of Unregistered Securities

In addition to other issuances of unregistered securities disclosed in current reports on Form 8-K during the fourth quarter of 2005, the Company issued the following shares of its common stock without registration under the Securities Act of 1933, as amended (the "Securities Act") during the fourth quarter of 2005:

1. On October 5, 2005, the Company issued 175 shares of common stock to a service provider in connection with consulting services rendered under a financial advisory services agreement;
2. On November 1, 2005 the Company issued 798 shares of common stock to Laurus Master Fund, Ltd. related to the conversion of \$1,500 of a convertible note payable at a conversion price of \$1.88 per share;
3. On November 3, 2005, the Company issued 8 shares of common stock to a service provider upon the exercise of warrants at an exercise price of \$ 0.95 per share, for total consideration of \$7;
4. On November 15, 2005, the Company issued 24 shares of common stock to a service provider upon the exercise of 50 warrants at an exercise price of \$3.00 per share in a cashless exercise; and
5. On November 21, 2005, the Company issued 532 shares of common stock to Laurus Master Fund, Ltd. related to the conversion of \$1,000 of a convertible note payable at a conversion price of \$1.88 per share.

The securities were issued by the Company in reliance on the exemptions from registration contained in Section 4(2) of the Securities Act, on the basis that the issuances did not involve public offerings of securities.

Equity Compensation Plans

The following table summarizes as of December 31, 2005, the shares of common stock authorized for issuance under our equity compensation plans:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	4,731	0.86	1,886
Equity compensation plans not approved by security holders	3,140	2.49	-
Total	7,871	1.51	1,886

Item 6. Management's Discussion and Analysis or Plan of Operation.

General

Use of Estimates and Critical Accounting Policies

In preparing our consolidated financial statements, we make estimates, assumptions and judgments that can have a significant effect on our revenues, income or loss from operations, and net income or loss, as well as on the value of certain assets on our consolidated balance sheet. We believe that there are several accounting policies that are critical to an understanding of our historical and future performance as these policies affect the reported amounts of revenues, expenses, and significant estimates and judgments applied by management. While there are a number of accounting policies, methods and estimates affecting our financial statements, areas that are particularly significant include receivable reserves, recoverability of long-lived assets, revenue recognition, stock-based compensation, and recoverability of goodwill and other intangible assets. In addition, please refer to Note 1 to the accompanying consolidated financial statements for further discussion of our accounting policies.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on specific identification of customer accounts and our best estimate of the likelihood of potential loss, taking into account such factors as the financial condition and payment history of major customers. We evaluate the collectibility of our receivables at least quarterly. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The differences could be material and could significantly impact cash flows from operating activities.

Impairment of Long-Lived Assets

The Company's management assesses the recoverability of its long-lived assets by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management.

Goodwill

Goodwill represents the excess of acquisition cost over the net assets acquired in a business combination. Management reviews, on an annual basis, the carrying value of goodwill in order to determine whether impairment has occurred. Impairment is based on several factors including the Company's projection of future undiscounted operating cash flows. If an impairment of the carrying value were to be indicated by this review, the Company would adjust the carrying value of goodwill to its estimated fair value.

Deferred Taxes

We have reversed our valuation allowance as we now expect to realize all of our net deferred tax assets. We have considered estimated future taxable income and ongoing tax planning strategies in assessing the amount needed for the valuation allowance. If actual results differ unfavorably from these estimates used, we may not be able to realize all of our deferred tax assets. Such realization could negatively impact our operating results.

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", as revised by SAB 104. As such, the Company recognizes revenue when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable and collectibility is probable. Sales are recorded net of sales discounts.

PWS, FSS, and HSR of Louisiana recognize revenue at the time the contract and related services are performed.

Southern Exposure and Cornerstone recognize revenue for product sales at the time the related products are shipped to the customer. These subsidiaries recognize revenue for installation jobs upon complete installation of the cabinets and inspection by the customer. Deferred revenue represents amounts billed to customers and collected prior to completion of the cabinets and inspection by the customer.

Cornerstone recognizes revenue from its building and remodeling jobs using the percentage of completion method for financial reporting purposes. Under the percentage of completion method, revenues with respect to individual contracts are recognized in the proportion that costs incurred to date bear to total estimated costs. Revenue and costs estimates are subject to revision during the terms of the contracts and any required adjustments are made in the periods in which the revisions become known. General and administrative costs are not allocated to contract costs and are charged to expense as incurred.

Stock-Based Compensation

We used the intrinsic value method of accounting for stock-based compensation to employees in accordance with Accounting Principles Board Opinion ("APB") No. 25, as amended, "Accounting for Stock Issued to Employees." We account for non-employee stock-based compensation under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." At December 31, 2005, we had two stock-based employee compensation plans, which are described more fully in Note 9 of the accompanying consolidated financial statements. We account for those plans under the recognition and measurement principles of APB 25, and related interpretations. We have applied the disclosure provisions in SFAS No. 148 in its consolidated financial statements and the accompanying notes.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123(R)"), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123(R) supersedes APB No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123 (R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The provisions of this statement are effective for the Company as of January 1, 2006. The Company expects to adopt SFAS 123(R) in the first fiscal quarter of 2006.

SFAS No. 123(R) requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. SFAS No. 123(R) also establishes accounting requirements for measuring, recognizing and reporting share-based compensation, including income tax considerations. Upon adoption of SFAS No. 123(R), the Company will be required to determine the transition method to be used at the date of adoption. The allowed transition methods are the modified prospective application and the modified retrospective application. Under the modified prospective application, the cost of new awards and awards modified, repurchased or cancelled after the required effective date and the portion of awards for which the requisite service has not been rendered (unvested awards) that are outstanding as of the required effective date will be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro forma disclosures under SFAS No. 123. The modified retrospective application requires companies to record compensation expense for all unvested stock options and restricted stock beginning with the first disclosed period restated. The Company plans to adopt SFAS 123(R) using the modified prospective application.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB Opinion No. 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have a negative impact on the Company's results of operations, although it will have no impact on its overall financial position. The impact of adopting SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net loss and loss per share in Note 1 to the Company's consolidated financial statements. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current accounting literature. The requirement will reduce net operating cash flows and increase net financing cash flows in periods of adoption.

Results from Continuing Operations - Year ended December 31, 2005 compared to year ended December 31, 2004

Net Sales

Recovery/Restoration Services

The revenue for our Recovery/Restoration Services segment for the year ended December 31, 2005 was \$37,142, compared to \$16,566 for the year ended December 31, 2004. The increase was primarily due to the acquisition of the FERS assets by HSR of Louisiana effective September 1, 2005. HSR of Louisiana provides hurricane recovery work in Florida, Louisiana, Mississippi, and Texas. Sales of PWS and FSS increased \$1,656 over sales in 2004. In 2005, PWS continued recovery/restoration work resulting from the 2004 hurricane season.

Rebuilding/Remodeling

The revenue for our Rebuilding/Remodeling segment for the year ended December 31, 2005 was \$30,993, compared to \$14,555 for the year ended December 31, 2004. The increase was due primarily to the Cornerstone acquisition effective March 31, 2005. Southern Exposure sales increased \$5,004, primarily due to increased product demand from its principal customer.

Costs of Sales

Recovery/Restoration Services

Costs of sales for our Recovery/Restoration Services segment for the year ended December 31, 2005 were \$18,642, compared to \$7,937 for the year ended December 31, 2004. Recovery/Restoration Services total cost of sales increased primarily due to the HSR of Louisiana acquisition of the FERS assets effective September 30, 2005. Recovery/Restoration gross margins were 50% and 48% for the years ended December 31, 2005 and 2004, respectively. The increase in cost of sales from 2004 was due primarily to higher costs of sales experienced for the recovery/restoration work performed by HSR in the Southeastern United States.

Rebuilding/Remodeling

Costs of sales for our Rebuilding/Remodeling segment for the year ended December 31, 2005 were \$19,730 compared to \$8,781 for the year ended December 31, 2004. The increase in total costs of sales was due to the Cornerstone acquisition effective March 31, 2005 and the increase in Southern Exposure sales. Southern Exposure gross margins for the years ended December 31, 2005 and 2004 were 40% and 40% respectively.

Selling, General and Administrative Expenses

Recovery/Restoration Services

Selling, general and administrative expenses were \$6,642 for the year ended December 31, 2005, compared to \$6,097 for the year ended December 31, 2004. The increase of \$545 from 2004 was due primarily to the HSR acquisition of the FERS assets effective September 30, 2005. Selling, general and administrative expenses as a percentage of revenues were 18% and 37% for the years ended December 31, 2005 and December 31, 2004, respectively.

Rebuilding/Remodeling

Selling, general and administrative expenses were \$5,379 for the year ended December 31, 2005, compared to \$2,140 for the year ended December 31, 2004. This increase was due to the Cornerstone acquisition effective March 31, 2005. Selling, general and administrative expenses as a percentage of revenues were 17% and 15% for the years ended December 31, 2005 and December 31, 2004, respectively. The administrative costs of Cornerstone were slightly higher than Southern Exposure because of the higher administrative cost to service residential customers of Cornerstone, and Cornerstone's expansion in 2005 to service additional Home Depot stores.

Corporate

Corporate general and administrative expenses were \$4,464 for the year ended December 31, 2005 as compared to \$2,119 for the year ended December 31, 2004. The increase of \$2,345 was due primarily to the variable stock option expense of \$952, increased salaries and payroll taxes of \$1,000, and stock compensation expense of \$257. Corporate expenses as a percentage of revenues were 7% and 7% for the years ended December 31, 2005 and December 31, 2004, respectively.

Other Income (Expense)

Interest expense was \$3,351 for the year ended December 31, 2005, compared to \$930 for the year ended December 31, 2004. The increase of \$2,421 was primarily related to the mezzanine debt issue cost amortization of \$1,791 and the associated interest of \$518. Other income was \$97 in 2005, compared to \$224 in 2004. The year ended December 31, 2004 included a one-time gain of \$129 related to the forgiveness of debt. Interest income was \$61 for the year ended December 31, 2005, compared to \$38 for the year ended December 31, 2004. The increase in interest income in 2005 was related to the investment of private placement proceeds.

Discontinued Operations

During the year ended December 31, 2005, the Company's management committed to a plan to dispose of certain assets and liabilities of its building and remodeling division. The disposal will allow the Company to focus on supporting higher margin opportunities.

Net sales from discontinued operations for the year ended December 31, 2005 were \$4,213, cost of sales were \$3,844 and selling, general and administrative expenses were \$2,559. Gross margin was 9%. There were no comparable amounts in 2004 as the division was acquired in 2005.

Liquidity and Capital Resources

The Company's existing capital resources as of December 31, 2005, consisted of cash and accounts receivable totaling \$28,810 compared to cash and accounts receivable of \$6,624 as of December 31, 2004. The Company believes that the financing arrangements that the Company currently has are sufficient to sustain operations throughout the next twelve months; however, if the Company pursues its growth strategy and engages in additional acquisitions, it expects that additional financing will be necessary.

In March 2006, the Company obtained a \$10,000 revolving line of credit ("Line of Credit") from a financial institution. The annual interest rate is at the financial institution's prime rate of interest less one quarter of one percent (0.25%). The initial interest rate on the Line of Credit on March 6, 2006 was equal to 7.25%. Interest payments on the outstanding principal balance of the Line of Credit are due monthly beginning on April 1, 2006. The Line of Credit expires, and all outstanding principal must be repaid to the financial institution, on September 1, 2007. The borrowings from the Line of Credit will be used for working capital purposes.

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Subject to the provisions of the Line of Credit, the Company can borrow, repay and reborrow principal under the Line of Credit from time to time during its term. The principal amount outstanding under the Line of Credit may not exceed the lesser of (a) \$10,000 or (b) an amount equal to two times the Company's free cash flow for the immediately preceding two calendar quarters ("the Credit Limit"). For purposes of the Line of Credit, the Company's free cash flow is defined for each period of determination as (a) net income plus the sum of interest, depreciation and amortization, less (b) distributions or dividends, less (c) accounts receivable of the Company and its subsidiaries unpaid 180 days or more after invoice date, plus (d) reserves specifically established against the receivables described in (e) to the extent such reserves are deducted in determining net income for the period in question. In connection with the Line of Credit, the Company paid the financial institution a commitment fee in the amount of \$100. The Company is also obligated to pay an unused facility fee on the daily average unused amount of the Line of Credit equal to one-half of one percent (0.5%) per annum, calculated and payable quarterly in arrears.

The Line of Credit is secured by substantially all of the assets of the Company and its subsidiaries and the capital stock of such subsidiaries pursuant to a Pledge and Security Agreement. The Line of Credit is guaranteed by the subsidiaries of the Company pursuant to a Guaranty Agreement.

Under the Line of Credit, the financial institution has agreed to issue letters of credit meeting the requirements of the financial institution set forth in the Line of Credit for the benefit of the Company in an amount not to exceed \$2,000 in the aggregate, and subject to the amount of cash advanced under the Line of Credit plus amounts outstanding under the letters of credit not being in excess of the Credit Limit. Pursuant to the terms of the Line of Credit, for each letter of credit issued by the financial institution, Home Solutions agrees to pay a letter of credit fee equal to one and one-half percent (1.5%) of the face amount of the letter of credit, but not less than \$5, plus other fees charged under the financial institution's then-current policies.

The Line of Credit contains covenants, including financial covenants, with which the Company must comply. The financial covenants include current assets to current liabilities ratio and a debt service coverage ratio. With certain exceptions, the Company is prohibited under the Line of Credit from incurring any debt or permitting any liens to be placed on its assets or the assets of its subsidiaries. Under the terms of the Line of Credit, the Company has agreed not to take certain actions, including becoming a party to a merger or consolidation, acquiring assets, and subject to certain exceptions, issuing securities.

On November 23, 2005 and December 1, 2005 the Company entered into subscription agreements (the "Subscription Agreements") with certain accredited investors (the "Investors") in connection with the proposed private placement (the "Offering") of 4,850 units (the "Units") consisting of 4,850 shares of common stock, par value \$.001 per share ("Common Stock") of the Company and purchase warrants exercisable for 970 shares of Common Stock (the "Purchase Warrants"). Each Unit consists of one (1) share of Common Stock and Purchase Warrants exercisable for a 0.20 share of Common Stock, at a price of \$5.50 per Unit.

On November 30, 2005, the Company closed the Offering of all 4,850 Units. The total purchase price for the Units, prior to deduction of Offering expenses and placement agent fees and expenses, were approximately \$26,700. After deduction of Offering expenses and Placement Agent fees and expenses, the net proceeds to the Company were approximately \$24,600.

The proceeds of the Offering were used by the Company to repay outstanding debt obligations, for working capital and otherwise for general business purposes.

Each Purchase Warrant is exercisable at any time after the closing date upon surrender of the Purchase Warrant to the Company, payment of the exercise price and completion of an exercise notice. The Purchase Warrants have a five year term, and have an exercise price of \$5.50 per share.

In 2005, the Company raised \$7,000 in a private placement of mezzanine debt with Petra Mezzanine Fund, L.P. ("Petra"), Laddcap Value Partners L.P. ("Laddcap") and Patriot Capital, L.P. ("Patriot"), as further described below.

Petra Note. The Company issued a promissory note to Petra in the principal amount of \$4,000 and issued a warrant to Petra exercisable for 533 shares of the Company's common stock at an exercise price of \$0.01 per share. The Company incurred \$1,116 in related debt issue costs (\$294 cash, \$822 non-cash). The non-cash costs of \$822 represented the relative fair value of the warrant and such costs were amortized to interest expense. In December 2005, the Company paid the Petra Note and accrued interest payable in full and amortized the remaining debt issue costs.

Laddcap Note. The Company issued a promissory note to Laddcap in the principal amount of \$500, and issued a warrant to Laddcap exercisable for 67 shares of the Company's common stock at an exercise price of \$0.01 per share. The Company incurred \$117 in related debt issue costs (\$14 cash, \$103 non-cash). The non-cash costs of \$103 represented the relative fair value of the warrant and such costs were amortized to interest expense. In December 2005, the Company paid the Laddcap Note and accrued interest payable in full and amortized the remaining debt issue costs.

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Patriot Note. The Company issued a promissory note to Patriot in the principal amount of \$2,300, and issued a warrant to Patriot exercisable for 333 shares of the Company's common stock at an exercise price of \$0.01 per share. The Company incurred \$518 in related debt issue costs (\$149 cash, \$369 non-cash). The non-cash costs of \$369 represented the relative fair value of the warrant and such costs were amortized to interest expense. In December 2005, the Company paid in full the Patriot Note and accrued interest payable and amortized the remaining debt issue costs.

All three notes earned interest at 12% per annum, were secured by the all the assets of the Company, PWS and Cornerstone and had a five-year term. The net proceeds from the notes were used to pay a portion of a seller note issued to Anthony Leeber, Jr., in the Cornerstone acquisition and to inject working capital into Cornerstone. All three notes were paid in full in December 2005 with the proceeds from a private placement.

In 2005, The Company received \$6,050 related to the exercise of 6,123 options and warrants.

During the year ended December 31, 2005, the Company used net cash from operating activities of \$4,676 including net income of \$7,185, due primarily to increases in accounts receivable.

The Company's investing activities used net cash of \$1,381 primarily offset by the Cornerstone acquisition and the purchase of property and equipment.

The Company's net cash from financing activities of \$13,154 was primarily due to net proceeds from preferred stock issuance, stock option exercises, stock issuances, warrant exercise and notes payable. Cash flow outlays were for principal payments on long-term debt and capital leases, distributions to a minority stockholder and payments on a note payable to a related party.

Trends, Risks and Uncertainties

We have sought to identify what we believe to be the most significant risks to our business, but we cannot predict whether or to what extent any of such risks may be realized, nor are there any assurances that the Company has identified all possible risks that might arise. Our revenues are derived from specialty Recovery, Restoration and Rebuilding/Remodeling products and services. There are numerous and varied risks known and unknown that may prevent us from achieving our goals. Some of these risks are set forth below.

Our limited operating history makes it difficult for us to evaluate our future business prospects and make decisions based on those estimates of our future performance.

We did not begin operations of our current business concept until November 2002 and through December 31, 2005, we have completed five acquisitions. We have a limited operating history in our current combined form, which makes it difficult to evaluate our business on the basis of historical operations. Also, our operating subsidiary HSR of Louisiana, which accounted for a significant portion of our revenue in 2005 and is anticipated to account for a significant portion of our revenue in fiscal year 2006, became operational through the acquisition of substantially all of the assets of FERS in September 2005. As a consequence, it is difficult, if not impossible, to forecast our future results based upon our historical data. Reliance on the historical results of our acquisition targets may not be representative of the results we will achieve, particularly in our combined form. Because of the uncertainties related to our lack of historical operations, we may be hindered in our ability to anticipate and timely adapt to increases or decreases in sales, revenues or expenses. If we make poor budgetary decisions as a result of unreliable historical data, we could be less profitable or incur losses, which may result in a decline in our stock price.

Our results of operations have not been consistent, and we may not be able to maintain profitability.

We incurred a consolidated net loss of (\$702) for the year ended December 31, 2003, yet we achieved a consolidated net profit of \$2,563 for the year ended December 31, 2004 and a net profit of \$7,185 for the year ended December 31, 2005. Our management believes that our current business plan will be successful and that we will continue to maintain and grow profitability; however, our business plan is speculative and unproven. Although our revenues grew substantially due to our growth strategy and we achieved a profit in the years ended December 31, 2004 and December 31, 2005, there is no assurance that we will be successful in executing our business plan or that even if we successfully implement our business plan, that we will sustain profitability now or in the future. If we incur significant operating losses, our stock price may decline, perhaps significantly.

Our business depends on the demand for recovery, restoration and rebuilding/remodeling services, and if the demand for those services decreases, our revenues could decline.

Our business depends upon the demand for Recovery, Restoration and Rebuilding/Remodeling services that we provide primarily to residential home owners. Because of our significant emphasis on the residential market, we would be adversely affected by any slowdown in the growth of, or reduction in demand for, residential services. Demand for our Recovery services is event-based and depends upon the frequency and intensity of natural disasters and the type and scope of damage to residential properties. Additionally, demand for all of our services depends on numerous factors, including: the amount and growth of household income; the financial condition of homeowners, and whether a homeowner's insurance policy is available to pay the cost of our services; the need for the remediation of indoor air contaminants, cleaning services, fabric protection and fire/water damage restoration; changes in mortgage rates and decreases in housing growth in markets where the Company operates; and general economic conditions.

If demand for the services that we provide decreases, then we may experience a decline in sales resulting in decreased profits. If demand for our services decreases and our management fails to implement appropriate adjustments, then our profitability could suffer and the price of our common stock could decline.

A significant portion of our Rebuilding/Remodeling business segment is dependent upon relationships with three customers.

Our Rebuilding/Remodeling business segment currently consists of the manufacture and installation of custom kitchen cabinets and countertops. These products and services are offered to residential customers primarily through furnish and installation contracts with Home Depot and Lowes, and through a relationship with Centex. The Lowes and Home Depot contracts may be terminated at any time upon notice to us. Furthermore, Home Depot and Lowes are not obligated to use our services under these contracts. We have no contract with Centex, and Centex is not obligated to buy our products or use our services. If Home Depot or Lowes terminates their contract with us, or if Home Depot, Lowes or Centex choose not to buy our products or use our services, we would experience an immediate detrimental impact on our Rebuilding/Remodeling business segment, resulting in a material detrimental effect on our results of operations.

We may engage in acquisitions, which will consume resources and may be unsuccessful or unprofitable.

We have pursued, and we intend to continue to pursue, a strategy of acquiring businesses that fit within our business model. However, acquisitions are not always successful or profitable. Any future acquisitions could expose us to risks, including risks associated with assimilating new operations and personnel; diversion of resources from our existing businesses; inability to generate revenues sufficient to offset associated acquisition costs; and risks associated with the maintenance of uniform standards, controls, procedures and policies. Acquisitions may also result in additional expenses from amortizing acquired intangible assets. If we attempt an acquisition and are unsuccessful in its completion, we will likely incur significant expenses without any benefit to our Company. If we are successful in completing an acquisition, the risks and other problems we face may ultimately make the acquisition unprofitable. Failed acquisition transactions and underperforming completed acquisitions would burden us with significant costs without any corresponding benefits to us, which could cause our stock price to decrease, perhaps significantly.

We expect that we will need to raise additional funds, and these funds may not be available when we need them.

We believe that we will need to raise additional monies in order to fund our growth strategy and implement our business plan. Specifically, we expect that we will need to raise additional funds in order to pursue rapid expansion, develop new or enhanced services and products, and acquire complementary businesses or assets. Additionally, we may need funds to respond to unanticipated events that require us to make additional investments in our business. There can be no assurance that additional financing will be available when needed on favorable terms, or at all. If these funds are not available when we need them, then we may need to change our business strategy and reduce our rate of growth.

We must effectively manage the growth of our operations, or our Company will suffer.

Our ability to successfully implement our business plan requires an effective planning and management process. If funding is available, we intend to increase the scope of our operations and acquire complimentary businesses. Implementing our business plan will require significant additional funding and resources. If we grow our operations, we will need to hire additional employees and make significant capital investments. If we grow our operations, it will place a significant strain on our management and our resources. If we grow, we will need to improve our financial and managerial controls and reporting systems and procedures, and we will need to expand, train and manage our workforce. Any failure to manage any of the foregoing areas efficiently and effectively would cause our business to suffer.

We face competition from numerous sources and competition may increase, leading to a decline in revenues.

We compete primarily with well-established companies, many of which we believe have greater resources than Home Solutions. We believe that barriers to entry in the recovery, restoration and rebuilding/remodeling services sectors are not significant and start-up costs are relatively low, so our competition may increase in the future. New competitors may be able to launch new businesses similar to ours, and current competitors may replicate our business model, at a relatively low cost. If competitors with significantly greater resources than ours decide to replicate our business model, they may be able to quickly gain recognition and acceptance of their business methods and products through marketing and promotion. We may not have the resources to compete effectively with current or future competitors. If we are unable to effectively compete, we will lose sales to our competitors and our revenues will decline.

Our failure to comply with federal and state environmental laws and regulations could result in fines or injunctions, which could materially impair the operation of our business.

Portions of our business are heavily regulated by federal, state and local environmental laws and regulations, including those promulgated under the Environmental Protection Agency. These federal, state and local environmental laws and regulations govern the discharge of hazardous materials into the air and water, as well as the handling, storage, and disposal of hazardous materials and the remediation of contaminated sites. Our businesses may involve working around and with volatile, toxic and hazardous substances and other regulated substances. We may become liable under these federal, state and local laws and regulations for the improper characterization, handling or disposal of hazardous or other regulated substances. We may become subject to claims for personal injury or property damage related to accidents, spills, and exposure to hazardous substances that are related to our business. It is possible that some of our operations could become subject to an injunction which would impede or even prevent us from operating that portion of our business. Any significant environmental claim or injunction could have a material adverse impact on our financial condition. Additionally, environmental regulations and laws are constantly changing, and changes in those laws and regulations could significantly increase our compliance costs and divert our human and other resources from revenue-generating activities.

The failure to obtain and maintain required governmental licenses, permits and approvals could have a substantial adverse effect on our operations.

Portions of our operations, particularly our Recovery and Remediation business segments, are highly regulated and subject to a variety of federal and state laws, including environmental laws which require that we obtain various licenses, permits and approvals. We must obtain and maintain various federal, state and local governmental licenses, permits and approvals in order to provide our services. We may not be successful in obtaining or maintaining any necessary license, permit or approval. Further, as we seek to expand our operations into new markets, regulatory and licensing requirements may delay our entry into new markets, or make entry into new markets cost-prohibitive. We cannot assure you that we will be able to obtain or, once obtained, maintain our licenses or registrations in any states where we are required to be licensed or registered to operate our business. Our activities in states where necessary licenses or registrations are not available could be curtailed pending processing of an application, and we may be required to cease operating in states where we do not have valid licenses or registrations. We could also become subject to civil or criminal penalties for operating without required licenses or registrations. These costs may be substantial and may materially impair our prospects, business, financial condition and results of operation.

If the Company fails to maintain adequate insurance, our financial results could be negatively impacted.

We carry standard general liability insurance in amounts determined to be reasonable by our management. We are also covered through standard worker's compensation insurance against claims by our employees for injuries and other conditions contracted while on the job. Although we believe we are adequately insured, if we fail to adequately assess our insurance needs or if a significant amount of claims are made by workers or others, there can be no assurance that the amount of such claims will not exceed our available insurance, resulting in a material negative impact on our financial results. This could have an adverse impact on the price of our common stock.

We are heavily dependent on our senior management, and a loss of a member of our senior management team could cause our stock price to suffer.

If we lose members of our senior management, we may not be able to find appropriate replacements on a timely basis, and our business could be adversely affected. Our existing operations and continued future development depend to a significant extent upon the performance and active participation of certain key individuals, including our Chief Executive Officer, President and our Chief Financial Officer. We cannot guarantee that we will be successful in retaining the services of these or other key personnel. If we were to lose any of these individuals, we may not be able to find appropriate replacements on a timely basis and our financial condition and results of operations could be materially adversely affected.

Our inability to hire, train and retain qualified employees could cause our financial condition to suffer.

The success of our business is highly dependent upon our ability to hire, train and retain qualified employees. We face competition from other employers for laborers, and the availability of labor is limited, particularly in areas serviced by our Recovery services. We must offer a competitive employment package in order to hire and retain employees, and any increase in competition for labor may require us to increase wages or benefits in order to maintain a sufficient work force, resulting in higher operation costs. Additionally, we must successfully train our employees in order to provide high quality services. In the event of high turnover or a labor shortage, we may experience difficulty in providing consistent high-quality services. These factors could adversely affect our results of operations.

If we fail to comply with the rules under Sarbanes-Oxley related to accounting controls and procedures or if material weaknesses or other deficiencies are discovered in our internal accounting procedures, our stock price could decline significantly.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments. We are in the process of documenting and testing our internal control procedures, and we may identify material weaknesses in our internal control over financial reporting and other deficiencies. If material weaknesses and deficiencies are detected, it could cause investors to lose confidence in our Company and result in a decline in our stock price. In addition, if we fail to achieve and maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly. In addition, we cannot be certain that additional material weaknesses or significant deficiencies in our internal controls will not be discovered in the future.

We may be unable to pay our debts when due, which could materially impact our profitability and our stock price.

Historically we have incurred debt in order to pursue our acquisition strategy, and we will likely incur additional debt in the future as we continue to implement our business plan, which involves engaging in strategic acquisitions. There is no guarantee that revenues from operations will be sufficient to pay our debts as they become due. We may need to attract new investors or lenders in order to refinance existing debt or incur new debt, and we may not be successful in doing so. Even if we are able to attract new investors or lenders or otherwise obtain additional financing, we could still suffer financial hardships if unexpected expenses arise or if revenues fail to meet our expectations. If we fail to obtain financing or attract other investors, our results of operations may suffer, resulting in a decline in the price of our common stock.

SPECIFIC RISKS RELATED TO RECOVERY SERVICES

Our subsidiaries, HSR of Louisiana and, to a lesser extent, PWS, are involved in providing Recovery services to disaster-ravaged areas. Our management has identified certain risks which it believes relate specifically to our Recovery operations, which are set forth below.

The need for Recovery services is unpredictable and depends upon the nature and extent of weather-related emergencies.

Our Recovery services are significantly impacted by the frequency and intensity of weather-related emergencies, which causes this segment of our business to fluctuate. Historically, the nature and frequency of weather-related emergencies has fluctuated between periods of relative calm, as compared to periods with weather-related events of greater frequency or intensity. In a period with few weather-related emergencies or in which weather-related emergencies cause comparatively less damage, we expect our revenues from this business segment to decline. Although emergencies and disasters will always occur, we cannot predict the frequency of occurrence, where they will occur, and the extent of damage that will result. All of these factors impact the need for Recovery services. If the need for Recovery services decline, our results of operations could suffer.

If we fail to win contracts from insurers and federal, state and local governments, it may impede our ability to grow our Recovery services.

The end users of our Recovery services currently consist primarily of large commercial businesses and homeowners which have the funds and resources to begin recovery of their properties which have been damaged in natural disasters. We believe that individuals and smaller commercial businesses who have experienced damage or destruction to their homes and properties, but do not have the resources to respond immediately, will rely upon insurance compani