

Company Report

SMA ALLIANCE, INC.

A Car Dealer's Dream

Rob Goldman
rob@goldmanresearch.com

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SMA ALLIANCE, INC. (OTC:PK - SMAA - \$0.12)

Price Target: \$1.50

Rating: Speculative Buy

COMPANY SNAPSHOT

SMA Alliance, Inc. operates as a software application company and provides marketing and advertising solutions by targeting Internet applications focused on lead generation. SMA's client base includes retailers and manufacturers by steering live buyers to clients through conversion of online product interest. By using its managed system technologies, SMA consistently provides buying demand on a daily basis for clients through application and continued development of their proprietary technology systems. The Company's primary market is the automotive sector where it is a leader in lead generation.

KEY STATISTICS

Price as of 9/25/12	\$0.12
52 Wk High – Low	\$0.43 – 0.015
Est. Shares Outstanding	242.9M
Market Capitalization	\$29.1M
3 Mo Avg Vol	175,700
Exchange	OTC:PK

COMPANY INFORMATION

SMA Alliance, Inc.
530 Church Street
Suite 401
Nashville TN 37219
888-330-6623
www.smaalliance.com
info@smaalliance.com

INVESTMENT HIGHLIGHTS

SMA Alliance has revolutionized the lead generation business, beginning with its major impact on the automotive industry. The SMA system reduces car dealer marketing and advertising costs and increases inventory turnover, thus raising profitability for SMA customers.

The size of the automotive market alone is huge. According to NADA the SAAR (seasonally adjusted annual sales rate) of new vehicles in the U.S. is 14.53 million, up from the 12.7 million sold in 2011.

SMA provides a tremendous advantage to its customers. SMA provides 3-10x more buyer demand on a daily basis than traditional methods, by posting a dealer's entire inventory all over the Internet.

SMA just made a landmark acquisition that places it near the top of the automotive e-marketing platform food chain. SMA recently acquired cars.net, a major industry site that lists inventory from nearly 14,000 dealers and boasts nearly 5 million monthly unique visitors.

This deal follows the announcement that SMA has signed a letter of intent with a large automotive manufacturer for nationwide Internet marketing placement services.

With millions in annual revenue essentially locked up for 2013 due to the Cars.net deal, SMA could generate nearly \$20M in revenue in 2013.

The pending IPO of industry player AutoTrader should soon raise SMAA's valuation.

With additional M&A and milestones ahead, we believe SMAA is primed to reach our \$1.50 price target. As success occurs, SMAA could even be an M&A target, due to the depth and efficiency of its technology and its ability to be replicated in other industries. We rate SMAA Speculative Buy.

THE VIEW FROM 30,000 FEET

Technology has dramatically changed the car-buying process for retail customers and automotive dealerships as well. Dealers have sunken or attributable costs in the marketing advertising of each unit in its inventory of roughly \$600. Much of the efforts may go into print, TV, and radio advertising as well as inventory posting on their corporate websites. However, that rarely is particularly effective.

As result, many car dealers may opt to utilize a lead provider such as Autobytel (NASDAQ – ABTL) which assists automotive retail dealers and manufacturers to market and sell new and used vehicles to consumers through its online purchase request referrals, dealer marketing products and services, and online advertising programs. Other dealers may elect to engage in their own online strategy which typically produces limited results. Car dealers know how to sell cars, but they are not necessarily proficient in broad-based e-marketing and advertising.

Dealers may also seek to market some of their inventory in an auto classified marketplace such as AutoTrader, which attempts to bring car dealers and buyers together. AutoTrader operates the popular Kelley Blue Book site and is the likely 800-pound gorilla in the space, with 29 million monthly unique visitors.

Still, with generally limited efficacy using these methods for lead provision, dealers are seeking methods to lower their advertising and marketing costs while increasing unit sales turnover.

In our view, we are surprised at AutoTrader's success given the emergence of auto sales through marketplaces such as Craigslist, Facebook (NASDAQ – FB), eBay (NASDAQ – EBAY), etc. While many car buyers may utilize sites such as Kelley Blue Book, Autobytel, and AutoTrader for research, it appears that a site such as Craigslist may be a more direct approach for advertising and car inventory.

THE AUTOMOTIVE MATCHMAKER

SMA Alliance, Inc. is a software and application company aggregating local buying demand for businesses. Specifically, SMA Alliance, Inc. leverages its technology and applications in internet-focused lead generation for the automotive industry, which drives live buyers to retailers through conversion of individual online product interest into buyers soliciting purchase from retailers instantly.

SMA Alliance is the first internet program designed to act as a Lead Generator rather than a Lead Provider, which means that instead of driving customers to its own corporate website, a dealer's entire used car inventory in ads that we place on all of the most popular classified websites on the internet.

Some of the sites that SMA feeds include Craigslist, Backpage and Ebay Classifieds, Cars.net, Oodle, Aol Autos (NYSE - AOL), cardomain.com, lemonfree.com, Walmart Classifieds (NYSE – WMT), web2carz.com, Military.com Classifieds and Overstock.com (NASDAQ – OSTK).

Through its technology and systems, SMA Alliance drives buying demand from local markets to local automobile dealers which are subscribed to SMA Alliance. The system and process software is installed and managed from centralized location and is currently serving localized dealers throughout the entire United States. The system is scalable to a worldwide audience of local buyers and flexible to be compatible to existing online traffic drivers.

Company Report

Dealers using the robust SMA proprietary platform enjoy 3-10x more buyer demand on a daily basis than traditional methods. SMA Dealer Partners receive on average 20-30 telephone “ups” of qualified buyers of automobiles, actively seeking to purchase vehicles from that Dealer's inventory every posting day. SMA Alliance Dealers also receive 50-200 active buyers filling out forms and on line credit applications to qualify for auto loans from that Dealer every single month. As a result, management believes that SMA Alliance programs generate more buyers of automobiles than any other program available.

The average SMA Alliance Dealer Partners are selling and delivering an additional 25 Used units per month through the SMA Used Car Classified Program and some as many as 70 additional Used units per month depending on the actual Dealer, Dealer Location, Dealership Inventory and level of service with SMA Alliance. SMA Alliance Programs have taken Used Car Departments from averaging 40-50 units per month to over 100 units per month.

Furthermore, all inbound sales calls and internet inquiries are captured and logged for Dealership usage and follow up and the typical return on investment is substantial with individual unit marketing costs declining by as much 30-50%. For example, with a \$5,900 annual subscription, dealers can advertise and market its entire inventory. It costs more than that just to market 10 vehicles. Plus, the SMA system provides tremendous efficacy, as evidenced by the hundreds of SMA dealer clients.

Three Key Developments



Image I. Cars.Net Website

Source: Cars.net

SMA just made a landmark acquisition that places it near the top of the automotive e-marketing platform food chain. SMA recently acquired cars.net, a major industry site that lists inventory from nearly 14,000 dealers and boasts nearly 5 million monthly unique visitors. The benefits to SMA both financially, strategically, and from the stature perspective cannot be ignored.

We should note that this deal is on the heels of a huge June announcement that SMA has signed a letter of intent with a large automotive manufacturer for nationwide Internet marketing placement services. We do not know the identity of the manufacturer but once that is announced it should be a major driver of the Company's share price.

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Finally, SMA is developing a platform to provide subprime auto financing to vehicle buyers in an exclusive deal with Credit Union Dealer Network. This latest platform will allow subprime lending at lower interest rates and will offer 6 month and one-year dealer service contracts in order to maximize long-term relationships with dealers. Completion of the network will build a finance inventory site for all automotive dealerships.

Sub-prime auto financing is on the upswing in 2012, after virtually being nonexistent in 2011. Experian Automotive noted that auto loans in the U.S. totaled \$663 billion during the first quarter of 2012. This represents an increase of \$26 billion over 2011. The total sub-prime share of those loans is up 11% from 2011 numbers. While we view this as a great strategic move by management, we also view this step as a potentially very profitable bonus for investors.

EXECUTIVE MANAGEMENT

Anthony Baker - Founder

Mr. Baker has 15 years executive management experience leading successful start-up and turn-around companies, primarily in the automotive industry. Mr. Baker is an entrepreneur and developer of software and systems with strong implementation experience, developing business operations generating over 200 million dollars annually. Mr. Baker is exceptional at identifying strategic acquisitions to gain market share and is proven to capitalize on market opportunities to drive revenues, profits, and growth. Mr. Baker graduated University of Kentucky with a BS in Chemistry in 1994 with additional studies in Theology, Pikeville Christian College, 1992-1993 and Business and Accounting from San Diego State University in 1999 and is fluent in English, Spanish, and German.

Tim Stephens – Chief Executive Officer

Mr. Stephens has operated in the Automobile industry for 45 years, starting at the very bottom in 1965 as a Porter until March 1969, when he enlisted in the US Navy, rose to the rank of E6 and was Honorable discharged, after two tours in Vietnam. Joining the ranks of auto sales he quickly rose to management and has operated dealerships as General Manager and owner operator until joining SMA in 2009. Mr. Stephens brings operations experience vital to the administration of the company with systems management of product delivery, internal and external communications.

David Wojcik – Chief Operating Officer

David Wojcik has over 17 years of Professional Automotive Dealership Management in his illustrious career in addition to being a US ARMY Airborne Veteran. Mr. Wojcik started his auto career in sales in 1993 and within 7 short years became the General Sales Manager of Millennium Hyundai in Hempstead, NY. Mr. Wojcik helped Millennium Hyundai grow from a 30 car a month store to the #2 Hyundai Dealership in the United States. Mr. Wojcik spent over 10 years of his career as part of the Staluppi Auto Group which is the nation's 8th largest Auto Dealer Group. Since then Mr. Wojcik has spent 4 years as General Manager of RK Toyota, part of the RK Auto Group in Hampton Roads VA before joining forces with SMA Alliance. Mr. Wojcik brings leadership, professionalism, strength and an abundance of sales and marketing experience to any organization he is affiliated with.

Company Report**Dan Laube – Chief Information Officer**

Dan Laube develops and manages all processes including strategic development, technology systems, budgeting, and marketing. Dan Laube brings information and system integrations efficiencies into SMA Alliance, responsive to the dynamics of the company and its employees. Proving Strong efficiencies from a very young age, Mr. Laube started his career at 14 as a flooring installation professional and at 17 had a flooring company of his own, developing it through efficiency to finally be sold. Dan's development caught the attention of a prominent local automobile dealer where Dan was recruited as Internet director, increasing revenue over 400% in within his first ninety days. Dan was soon promoted to Assistant General Manager within a year. Dan was then recruited to Stadium Auto where he developed systems allowing a growth from 70 units in inventory and 35 unit sales per month to 270 units in inventory and 170 units per month within 5 months.

RISK FACTORS

In our view, SMAs biggest risk is the timing of signing deals or acquisitions. A secondary concern would be the typical cyclical changes in the economy and auto sales. However, we should note that used car sales tend to do very well in poor economic environments which dovetails nicely with SMA's strategy. Execution risks, large deals such as with the major auto manufacturer, could push meaningful revenue generation out to a later date, or in a smaller ramp, thus impacting the Company's revenue ramp or time to significant profitability. Competition from larger firms or even from newer entrants is a typical concern and is also consistent with firms of SMA's size and standing.

CONCLUSION

There are many reasons why we believe that SMAA is not only undervalued at present levels, but will reach our \$1.50 price objective. The Company's revolutionary product is signing on new dealers and has already signed an LOI with a major automotive manufacturer. When that deal closes and is announced it will be a driver of the stock. Other drivers include the pending IPO of leader and comparable AutoTrader, as well as meaningful revenue next year given the recent Cars.net acquisition.

With additional M&A and milestones ahead, SMAA could even be an M&A target, due to the depth and efficiency of its technology and its ability to be replicated in other industries. We rate SMAA Speculative Buy.

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Recent Trading History For SMAA

(Source: Stockta.com)



Company Report**Analyst: Robert Goldman**

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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