

American Racing Capital, Inc.  
Form SB-2  
April 26, 2007

As filed with the Securities and Exchange Commission on April 26, 2007

Registration No. 333-\_\_\_\_\_

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM SB-2

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REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

**AMERICAN RACING CAPITAL, INC.**  
(Name of Small Business Issuer in its Charter)

<b>Nevada</b>	<b>7948</b>	<b>87-0631750</b>
State or Jurisdiction of Incorporation or Organization	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

**P.O. Box 22002**  
**San Diego, CA 92192**  
**(800) 230-7132**

(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

**A. Robert Koveleski, Chief Executive Officer**

**P.O. Box 22002**  
**San Diego, CA 92192**  
**(800) 230-7132**

(Name, Address and Telephone Number of Agent for Service)

Copies of Communications to:

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Approximate date of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act Registration Statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the Prospectus is expected to be made pursuant to Rule 434, please check the following box.

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**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Number of Units/Shares to be Registered</b>	<b>Proposed Maximum Offering Price Per Unit</b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee</b>
Common Stock, par value \$.001 per share (1)	2,187,133 <sup>(2)</sup> <sup>(3)</sup>	\$0.109	\$238,398	\$7.32
<b>Total</b>	<b>2,187,133</b>		<b>\$238,398</b>	<b>\$7.32</b>

<sup>(1)</sup>Represents 2,187,133 shares of common stock issuable in connection with the conversion of Callable Secured Convertible Notes in accordance with the Securities Purchase Agreement dated July 25, 2006 between us and AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millennium Capital Partners II, LLC. The price of \$0.109 per share is being estimated solely for the purpose of computing the registration fee pursuant to Rule 457(c) of the Securities Act and is based on the estimated conversion price of the Callable Secured Convertible Notes (\$0.109 was the average of the lowest three (3) intraday trading prices for our common shares during the twenty (20) trading days prior to the date the Notes were issued on July 25, 2006, less a 55% discount).

<sup>(2)</sup>The number of shares being registered for the conversion of the Callable Secured Convertible Notes is 2,187,133 representing approximately  $\frac{1}{3}$  of our 6,561,398 non-affiliate outstanding common shares issued and outstanding as of April 23, 2007.

<sup>(3)</sup>None of the 2,187,133 shares being registered are shares that have been, or will be, received as liquidated damages or conversion default payments.

*The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the commission, acting pursuant to Section 8(a), may determine.*

The information in this Prospectus is not complete and may be changed. The Selling Stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Preliminary Prospectus subject to completion dated April 25, 2007**

**PROSPECTUS**

**AMERICAN RACING CAPITAL, INC.**

**2,187,133 SHARES OF COMMON STOCK**

Our Selling Stockholders are offering to sell 2,187,133 shares of common stock issuable in connection with the conversion of promissory notes.

Our shares of common stock are quoted on the OTC Bulletin Board (“OTCBB”) under the symbol “ANRC”. The last reported sale price of our common stock on April 23, 2007 was \$0.45.

We will receive no proceeds from the sale of the shares by the Selling Stockholders.

The date of this Prospectus is \_\_\_\_, 2007

**The securities offered in this Prospectus involve a high degree of risk and are subject to the “penny stock” rules. You should carefully consider the factors described under the heading “Risk Factors” beginning on page 3.**

**Neither the Securities and Exchange Commission (the “SEC”) nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

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**TABLE OF CONTENTS**

	<b>Page</b>
Summary Information	1
Disclosure Concerning Our Recent Financing and Conversion of Notes and Exercise of Warrants	2
Risk Factors	9
Use of Proceeds	15
Penny Stock Considerations	15
Selling Stockholders	15
Plan of Distribution	18
Legal Proceedings	19
Directors, Executive Officers, Promoters and Control Persons	19
Security Ownership of Certain Beneficial Owners and Management	20
Description of Securities	21
Interest of Named Experts And Counsel	22
Disclosure of Commission Position of Indemnification For Securities Act Liabilities	22
Description of Business	22
Management's Discussion and Analysis or Plan of Operations	26
Description of Property	29
Certain Relationships And Related Transactions	29
Market for Common Equity and Related Stockholder Matters	30
Executive Compensation	30
Changes and Disagreements with Accountant on Accounting and Financial Disclosure	32
Available Information	32
Financial Statements	F-1

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## SUMMARY INFORMATION

*This summary highlights information contained elsewhere in this Prospectus. You should read the entire Prospectus carefully, including, the section entitled "Risk Factors" before deciding to invest in our common stock. American Racing Capital, Inc. is referred to throughout this Prospectus as "ANRC", "American Racing Capital", "ARCI", "Company", "we", "us", or "our".*

### **Our Company**

American Racing Capital, Inc. (the "Company") was originally incorporated under the laws of the State of Nevada on September 8, 1998 as Mega Health Corporation. On June 23, 1999, the name of the corporation was changed to Altrimega Health Corporation ("Altrimega"). On October 17, 2005, the Company entered into two Share Exchange Agreements with American Racing Capital, Inc., a Nevada company ("ARCI") and the shareholders of ARCI and ARC Development Corporation, a Nevada corporation ("ARCD") and the shareholders of ARCD, respectively. As a result of these share exchange transactions, ARCI and ARCD became wholly-owned subsidiaries of the Company. In October 2005, the Company adopted a new strategy focused on the business of auto racing and motorsports. Since then, the Company has been pursuing business opportunities that further its presence into the field of auto racing and motorsports.

On November 21, 2006, the Company entered into a Shareholders Agreement, by and among Motorsports & Entertainment of Tennessee, Inc., a Nevada corporation ("MET") and a majority-owned subsidiary of ARC (51%), and LJ&J Enterprises, Inc., a Pennsylvania corporation and minority shareholder of MET (40%). Simultaneously with the execution of the Shareholders Agreement, MET entered into a Stock Purchase Agreement with LJ&J Enterprises of Tennessee, Inc., a Tennessee corporation ("LJ&J") to purchase eighty percent (80%) of common stock in LJ&J (the "LJ&J Stock"). LJ&J holds the management and concessions contract for auto racing and special events at the "Music City Motorplex", located on the Tennessee State Fairgrounds in downtown Nashville, Tennessee. The Company completed the first part of the acquisition whereby it acquired forty percent (40%) of the LJ&J Stock, effective as of January 1, 2007, and anticipates completing the second part of the acquisition in the second quarter of 2007. Music City Motorplex is a 5/8th's mile paved NASCAR sanctioned short-track, highly steeped in tradition. Located on 115 acres of the Tennessee State Fairgrounds just two miles from the center of downtown Nashville, this facility hosts NASCAR sanctioned events from March through October. Revenues will proceed from existing track operations, concessions and some special events. Build-outs will include attractions such as a family fun entertainment-zone, concerts, additional city sanctioned events, and growing special attractions. Through LJ&J, we now operate one race track.

The Company's business operations have also included marketing and consulting services in the areas of automotive dealer networks and the design and development of racing facilities.

### **Summary Financial Data**

The following summary financial data should be read in conjunction with "Management's Discussion and Analysis," "Plan of Operation" and the Financial Statements and Notes thereto, included elsewhere in this Prospectus. The statement of operations and balance sheet data are derived from our December 31, 2006 and 2005 audited consolidated financial statements.

<b>For the Year Ended December 31, 2006</b>	<b>For the Year Ended December 31, 2005</b>
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STATEMENT OF OPERATIONS

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Revenues	\$	0	\$	88,989
Net Income (Loss)	\$	(5,186,557)	\$	(120,635)
General and Administrative Expenses	\$	157,320	\$	131,940
Net Income (Loss) Per Share		(0.33)		(\$.03)

As of  
**December 31,**                      **December 31,**  
**2006**                                      **2005**

BALANCE SHEET DATA

Cash	\$	23,363	\$	379
Total Current Assets	\$	24,118	\$	379
Total Assets	\$	467,643	\$	788
Total Liabilities	\$	422,628	\$	1,167
Stockholders' Equity (Deficiency)	\$	45,015	\$	(172,298)

1

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### **Going Concern**

As reflected in the Company's Financial Statements and Note 2 to the Financial Statements which accompany this Prospectus, the Company's accumulated deficit of \$5,361,997 and its working capital deficiency of \$398,510 raise substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional debt or capital. The financial statements for December 31, 2006 do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

To successfully grow the individual segments of the business, we must decrease our cash burn rate, improve our cash position and the revenue base of each segment, and succeed in our ability to raise additional capital through a combination of primarily public or private equity offering or strategic alliances. We also depend on certain contractors and our executives, and the loss of any of those contractors or executives, may harm our business.

### **Our Contact Information**

Our principal executive offices are located at P.O. Box 22002, San Diego, CA 92192. We can be reached by calling (800) 230-7132, faxing (949) 777-109 or emailing [info@americanracingcapital.com](mailto:info@americanracingcapital.com). We invite you to visit our website at [www.americanracingcapital.com](http://www.americanracingcapital.com) for information about our company, products and services.

### **The Offering**

Common Stock Offered by Selling Stockholders: Up to 2,187,133 representing approximately 1/3 of our 6,441,398 non-affiliate common shares outstanding as of April 23, 2007. The convertible notes were issued pursuant to the Securities Purchase Agreement dated July 25, 2006. On July 25, 2006, we entered into a Securities Purchase Agreement for a total subscription amount of \$2,000,000 that included Stock Purchase Warrants and Callable Secured Convertible Notes with AJW Capital Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millennium Capital Partners II, LLC (Collectively, the Investors"). The initial funding of \$700,000 of which The Company received net proceeds of \$645,000 was completed on July 26, 2006 with the following parties and evidenced by callable secured convertible notes: AJW Capital Partners, LLC invested \$67,900; AJW Offshore, Ltd. invested \$413,000; AJW Qualified Partners, LLC invested \$210,000; and New Millennium Capital Partners II, LLC invested \$9,100.

Common Stock to be Outstanding After the Offering: Up to 29,938,531 shares.

Use of Proceeds: We will not receive any proceeds from the sale of the common stock.

OTCBB Symbol: ANRC



**DISCLOSURE REGARDING OUR RECENT FINANCING AND CONVERSION OF NOTES AND EXERCISE OF WARRANTS**

**Terms of Financing Documents**

**Securities Purchase Agreement**

On July 25, 2006 (the “Issuance Date”), we entered into a Securities Purchase Agreement with AJW Capital Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millennium Capital Partners II, LLC (the “Investors”), whereby the Investors purchased an aggregate of (i) \$2,000,000 in Callable Secured Convertible Notes (the “Notes”) and (ii) warrants to purchase 10,000,000 shares of our common stock (the “Warrants”). The Investors will purchase the Notes and Warrants in three (3) tranches as set forth below:

1. At closing on July 26, 2006 (“Closing”), the Investors purchased Notes aggregating \$700,000 and Warrants to purchase 10,000,000 shares of CMEG common stock;
2. On September 12, 2006, the Investors purchased Notes aggregating \$600,000; and

3. Upon effectiveness of this Registration Statement, the Investors will purchase Notes aggregating \$700,000.

Under the Securities Purchase Agreement, we are obligated to pay all costs and expenses incurred by us in connection with the negotiation, preparation and delivery of the transaction documents, as well as the costs associated with registering the common shares underlying the Notes being offered in this Prospectus.

*Future Capital Raising Limitations.* The Company may not, without the prior written consent of a majority-in-interest of the Investors, negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) involving the following:

1. Issuance of common stock at a discount to the market price of such stock;
2. Issuance of convertible securities that are convertible into an indeterminate number of shares of Common Stock; or
3. Issuance of warrants during the "Lock-Up Period." The Lock-up Period begins on the Closing Date and extends until the later of (i) two hundred seventy (270) days from the Closing Date; or, (ii) one hundred eighty (180) days from the date the Registration Statement is declared effective (plus any days in which sales cannot be made thereunder).

In addition, Investors have a right of first refusal of any future equity offerings (including debt with an equity component) for the period beginning on the Closing and ending two (2) years after the end of the Lock-up Period (the "Right of First Refusal"). The Right of First Refusal provides each Buyer an option to purchase its pro rata share of the securities being offered in the future offering on the same terms as contemplated by such Future Offering.

Notwithstanding the above, such limitations shall not apply to any transaction involving:

1. issuances of securities in a firm commitment underwritten public offering (excluding a continuous offering pursuant to Rule 415 under the 1933 Act, an equity line of credit or similar financing arrangement) resulting in net proceeds to the Company of in excess of \$15,000,000; or
2. issuances of securities as consideration for a merger, consolidation or purchase of assets, or in connection with any strategic partnership or joint venture (the primary purpose of which is not to raise equity capital), or in connection with the disposition or acquisition of a business, product or license by the Company.

The limitations also shall not apply to the issuance of securities upon exercise or conversion of the Company's options, warrants or other convertible securities outstanding as of the date hereof or to the grant of additional options or warrants, or the issuance of additional securities, under any Company stock option or restricted stock plan approved by the shareholders of the Company.

Furthermore, the limitations shall not apply in the event the Company's Board of Directors decides, in good faith, to enter into a transaction or relationship in which the Company issues shares of Common Stock or other securities of the Company to a person or any entity which is, itself or through its subsidiaries, an operating company in a business synergistic with the business of the Company and in which the Company received benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising capital or to an entity whose business is investing in securities.

*Liquidated Damages.* We are liable to pay liquidated damages in shares or cash, at our election, equal to 3% of the outstanding amount of the Notes per month plus accrued and unpaid interest if we breach any (i) covenant set forth in the Securities Purchase Agreement, including the failure to comply with blue sky laws, timely file all public reports, use the proceeds from the sale of the Notes in the agreed upon manner, obtain written consent from the Investors to negotiate or contract with a party for additional financing, reserve and have authorized the required number of

common shares or maintain the listing or quotation of our common shares on an exchange or automated quotation system; or (ii) representation or warranty regarding the condition of our company set forth in the Securities Purchase Agreement.

3

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## Security Agreement and Intellectual Property Security Agreement

In connection with the Securities Purchase Agreement and as security for the Notes, we executed a Security Agreement and an Intellectual Property Security Agreement granting the Investors a continuing security interest in, a continuing first lien upon, an unqualified right to possession and disposition of, and a right of set-off against, in each case to the fullest extent permitted by law, all of the Company's right, title and interest in all of our goods, inventory, contractual rights and general intangibles, receivables, documents, instruments, chattel paper, and intellectual property. Under the Security Agreement and Intellectual Property Security Agreement, events of default occur upon:

- The occurrence of an event of default (as defined in the Notes and listed below) under the Notes;
- Any representation or warranty we made in the Security Agreement or in the Intellectual Property Security Agreement shall prove to have been incorrect in any material respect when made;
- The failure by us to observe or perform any of our obligations under the Security Agreement or Intellectual Property Security Agreement for ten (10) days after receipt of notice of such failure from the Investors; and

· Any breach of, or default under, the Warrants.

## Warrants

*Exercise Terms and Limitation.* We simultaneously issued to the Investors seven (7) year Warrants to purchase 10,000,000 shares of our common stock at an exercise price of \$0.30. The Investors have contractually agreed to restrict their ability to exercise the Warrants and receive shares of our common stock such that the number of shares of our common stock held by them and their affiliates after such exercise does not exceed 4.99% of the then issued and outstanding shares of our common stock.

*Cashless Exercise.* If the shares of common stock underlying the Warrants are not registered, then the Investors are entitled to exercise the Warrants on a cashless basis without paying the exercise price in cash. In the event that the Investors exercise the Warrants on a cashless basis, then we will not receive any proceeds.

*Anti-Dilution.* The Warrants' exercise price will be adjusted in certain circumstances such as if we issue common stock at a price below market price, except for any securities issued in connection with the Notes, if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the Investors' position.

## Notes

*Interest, Maturity and Conversion.* The Notes bear interest at 6% per annum, mature three (3) years from the issuance date, and are convertible into shares of our common stock at the applicable percentage of the average of the lowest three (3) intraday trading prices for our shares of common stock during the twenty (20) trading day period prior to conversion, but not including the conversion date. The "Applicable Percentage" means 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty (30) days of the closing, and (ii) 60% in the event that the Registration Statement is declared effective by the SEC. The "Applicable Percentage" was amended to 45% on April 18, 2007.

In the event of full conversion of the aggregate principal amount of the Notes of \$2,000,000, we would have to register a total of 13,698,630 shares of common stock. This amount is calculated as follows:

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The aggregate principal amount of the Notes is \$2,000,000. The estimated conversion price of the Notes is \$0.109 based on the following: \$0.243 was the average of the lowest three (3) intraday trading prices for our shares of common stock during the twenty (20) trading days prior to the Issuance Date ("Average Common Stock Price"), less a 55% discount. Thus, at a discounted price-per-share of \$0.109, 18,348,624 shares of the Company's common stock would be issuable upon conversion of \$2,000,000 into common shares of the Company ("Conversion Shares") and would be registered.

There is no limit to the number of shares that we may be required to issue upon conversion of the Notes as it is dependent upon our share price, which varies from day to day. This could cause significant downward pressure on the price of our common stock. The following table shows the effect on the number of shares issuable upon full conversion, in the event the common stock price declines by 25%, 50% and 75% from the trading price on the date of the Closing.

	<b>Price Decreases By</b>			
	<b>7/26/2006</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>
Average Common Stock Price (as defined above)	\$ 0.243	\$ 0.182	\$ 0.122	\$ 0.061
Conversion Price	\$ 0.109	\$ 0.082	\$ 0.055	\$ 0.027
100% Conversion Shares	18,348,624	24,390,244	36,363,636	74,074,074

*Conversion Limitation.* The Investors have contractually agreed to restrict their ability to convert the Notes and receive shares of our common stock such that the number of shares of our common stock held by them and their affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of our common stock.

*Call Option.* The Notes have a call option, which provides us with the right to prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below \$0.25 per share. Prepayments are to be made in cash equal to either (i) 120% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the Notes; (ii) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the Notes; and (iii) 140% of the outstanding principal and accrued interest for prepayments occurring after the 60<sup>th</sup> day following the issue date of the Notes. To exercise this right, we must provide to the note holders prior written notice no less than 3 trading days before the exercise date.

*Partial Call Option.* In the event that the average daily price of the common stock for each day of the month ending on any determination date is below \$0.25, we have a partial call option which provides us with the right to prepay a portion of the outstanding principal amount of the Notes equal to 101% of the principal amount hereof divided by thirty-six (36) plus one month's interest. Exercise of this option will stay all conversions for the following month. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, we have granted the Investors a security interest in substantially all of our assets and intellectual property as well as registration rights.

*Anti-Dilution.* The Notes' conversion price will be adjusted in certain circumstances such as if we issue common stock at a price below market price, except for any securities issued in connection with the Notes, if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the Investors' position.

*Default.* An "Event of Default" occurs if we:

- Fail to pay the principal or interest when due;
- Fail to issue shares of common stock upon receipt of a conversion notice;
- Fail to file a registration statement within 45 days following the Closing or fail to have the registration statement effective 135 days following the Closing;
- Breach any material covenant or other material term or condition in the Notes or the Securities Purchase Agreement;
- Breach any representation or warranty made in the Securities Purchase Agreement or other document executed in connection with the financing transaction;
- Fail to maintain the listing or quotation of our common stock on the OTCBB or an equivalent exchange, the Nasdaq National Market, the Nasdaq SmallCap Market, the New York Stock Exchange, or the American Stock Exchange;
- Apply for or consent to the appointment of a receiver or trustee for us or any of our subsidiaries or for a substantial part of our of our subsidiaries' property or business, or such a receiver or trustee shall otherwise be appointed;
- Have any money judgment, writ or similar process shall be entered or filed against us or any of our subsidiaries or any of our property or other assets for more than \$50,000, and shall remain unvacated, unbonded or unstayed for a period of twenty (20) days unless otherwise consented to by the Investors;



· Institute or have instituted against us or any of our subsidiaries any bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings for relief under any bankruptcy law or any law for the relief of debtors; or

· Default under any Note issued pursuant to the Securities Purchase Agreement.

### **Amendment of Notes and Issuance of Additional Warrants**

On April 18, 2007 (the “Second Issuance Date”), we entered into an Amendment of Notes with the Investors. Whereby we agreed to lower the Applicable Percentage of the Notes to 45% and agreed to issue to the Investors an additional 1,000,000 Warrants under the same terms conditions as the original Warrants, except that the exercise price. In consideration for the additional Warrants and increased discount, the Company is not currently in default under the terms of the Notes.

### **Value of Shares Underlying Notes**

The maximum aggregate dollar value of the 2,187,133 shares of common stock underlying the Notes that the Company has registered for resale is \$238,398. This number is based on 1/3 of our 6,441,398 non-affiliate outstanding common shares issued and outstanding as of April 23, 2007 and the estimated conversion price per share of \$0.109 (\$0.243 was the average of the lowest three (3) intraday trading prices for our common shares during the twenty (20) trading days prior to the date the Notes were issued on July 25, 2006, less a 40% discount).

The market price for the Company’s common stock on the Issuance Date was \$0.25 per share based on the closing price on July 24, 2006, the last closing price prior to the Issuance Date. Using this market price per share, the maximum aggregate dollar value of the 2,187,133 common shares underlying the Notes that the Company has registered for resale is \$546,783.25.

### **Fees and Payments Associated with Transaction**

The following table discloses the dollar amount of each payment (including the dollar value of any payments to be made in common stock) in connection with the financing transaction that the Company has paid, or may be required to pay to any Selling Stockholder, any affiliate of a Selling Stockholder, or any person with whom any Selling Stockholder has a contractual relationship regarding the transaction. The table also reflects the potential net proceeds to the Company from the sale of the Notes and the total possible payments to all selling shareholders and any of their affiliates in the first year following the sale of convertible notes. We intend to use all proceeds received in connection with the financing transaction for general corporate, business development and working capital purposes. For purposes of this table, we assumed that the aggregate of \$2,000,000 in Notes were issued on July 25, 2006, even though the Investors are not obligated to pay to us the third tranche of \$600,000 until this Registration Statement is declared effective by the SEC. There are no other persons with whom any Selling Stockholder has a contractual relationship with regarding the transaction.

<b>Finder’s Fee<sup>(1)</sup></b>	<b>Structuring and Due Diligence Fees<sup>(2)</sup></b>	<b>Maximum Possible Interest Payments<sup>(3)</sup></b>	<b>Maximum Redemption Premium<sup>(4)</sup></b>	<b>Maximum Possible Liquidated Damages<sup>(5)</sup></b>	<b>Maximum First Year Payments<sup>(6)</sup></b>	<b>Maximum Possible Payments<sup>(7)</sup></b>	<b>Net Proceeds to Company<sup>(8)</sup></b>
\$130,000	\$35,000	\$190,379.50	\$876,151.80	\$63,088.16	\$166,026.87	\$418,467.66	\$1,835,000

(1)



The Company paid to Earl Ingarfield a fee of \$130,000 on July 26, 2006 for arranging the financing pursuant to a Consulting Agreement.

- (2) Pursuant to the Securities Purchase Agreement, the Company paid to The National Investment Resources, LLC ("NIR") \$30,000 in structuring and due diligence fees and \$5,000 to Ballard Spahr Andrews & Ingersoll, LLP, NIR's legal counsel in connection with the transaction.
- (3) Maximum amount of interest that can accrue assuming all Notes aggregating \$2,000,000 were issued on July 25, 2006 and remain outstanding until the maturity date. Interest is payable quarterly provided that no interest shall be due and payable for any month in which the intraday trading price is greater than \$0.04. The Company, at its option, may pay accrued interest in either cash or, in shares of its common stock. To date, no interest has accrued or been paid since our intraday trading price has been greater than \$0.04.
- (4) Under certain circumstances we have the right to redeem the full principal amount of the Notes prior to the maturity date by repaying the principal and accrued and unpaid interest plus a redemption premium of 40%. This represents the maximum redemption premium the Company would pay assuming we redeem all of the Notes twelve (12) months from July 25, 2006.

- (5) Under the Stock Purchase Agreement, the maximum amount of liquidated damages that the Company may be required to pay for the twelve (12) months following the sale of all Notes is 3% of the outstanding principal and accrued and unpaid interest.
- (6) Total maximum payments that the Company may be required to pay to the Selling Stockholders for the twelve (12) months following the sale of all Notes, which is comprised of \$102,938.71 in interest and \$63,088.16 in liquidated damages. If we redeemed the Notes one year from the Issuance Date, then the total payments would be \$2,876,151.80.
- (7) Total maximum payments payable by Company, includes finder's fees of \$130,000, structuring and due diligence fees of \$35,000, maximum possible interest of \$190,379.50 and maximum possible liquidated damages of \$63,088.16. We also incurred \$65,000 in legal fees for the transaction and filing of this registration statement, which would increase the possible maximum payments by Company to \$503,467.66 and reduce the net proceeds to Company to \$1,750,000.
- (8) Total net proceeds to the Company including the \$130,000 finder's fee and \$35,000 structuring and due diligence fees. We also incurred \$65,000 in legal fees for the transaction and filing of this registration statement.

**Total Possible Profit Selling Stockholders Could Realize**

*Notes*

The following table discloses the total possible profit Selling Stockholders could realize as a result of the conversion discount for the securities underlying the Notes. For purposes of this table, we assumed that the aggregate of \$2,000,000 in Notes were issued on July 25, 2006, even though the Investors are not obligated to pay to us the second tranche of \$400,000 until this registration statement is declared effective by the SEC.

<b>Market Price<sup>(1)</sup></b>	<b>Conversion Price<sup>(2)</sup></b>	<b>Shares Underlying Notes<sup>(3)</sup></b>	<b>Combined Market Price of Shares<sup>(4)</sup></b>	<b>Total Conversion Price<sup>(5)</sup></b>	<b>Total Possible Discount to Market Price<sup>(6)</sup></b>
\$0.25	\$0.109	18,348,624	\$3,424,657.50	\$2,000,000.02	\$1,424,657.48

- (1) Market price per share of our common stock on the Issuance Date (July 25, 2006).
- (2) The conversion price per share of our common stock underlying the Notes on the Issuance Date is calculated by the average of the lowest three (3) intraday trading prices for our common shares during the twenty (20) trading days prior to the date the Notes were issued on July 25, 2006 (\$0.243 was the average), less a 40% discount.
- (3) Total number of shares of common stock underlying the Notes assuming full conversion as of the Issuance Date. Since the conversion price of the Notes may fluctuate as market prices fluctuate, the actual number of shares that underlie the

Notes will also fluctuate.

- (4) Total market value of shares of common stock underlying the Notes assuming full conversion as of the Issuance Date based on the market price on the Issuance Date.
- (5) Total value of shares of common stock underlying the Notes assuming full conversion of the Notes as of the Issuance Date based on the conversion price.
- (6) Discount to market price calculated by subtracting the total conversion price (result in footnote (5)) from the combined market price (result in footnote (4)).

**Warrants**

We also issued to Selling Stockholders seven year Warrants to purchase an aggregate of 10,000,000 shares of our common stock, exercisable on a cashless basis provided we are not in default of the Notes with the aggregate exercise price of \$3,000,000 if exercised on a cashless basis. The following table discloses the total possible profit Selling Stockholders could realize as a result of the cashless exercise of the Warrants.

<b>Market Price<sup>(1)</sup></b>	<b>Exercise Price<sup>(2)</sup></b>	<b>Shares Underlying Warrants<sup>(3)</sup></b>	<b>Combined Market Price<sup>(4)</sup></b>	<b>Total Exercise Price<sup>(5)</sup></b>	<b>Total Possible Discount to Market Price<sup>(6)</sup></b>
\$0.25	\$0.30	10,000,000	\$2,500,000	\$3,000,000	\$0
\$0.45	\$0.50	1,000,000	\$450,000	\$500,000	\$0
<b>Total</b>		<b>11,000,000</b>	<b>\$2,950,000</b>	<b>\$3,500,000</b>	<b>\$0</b>

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(1) Market price per share of our common stock on the Issuance Date (July 25, 2006) and Second Issuance Date (April 18, 2007), respectively.

- (2) The exercise price per share of our common stock underlying 10,000,000 Warrants is fixed at \$0.30 and 1,000,000 Warrants is fixed at \$0.50, except that the Warrants contain anti-dilution protections which in certain circumstances may result in a reduction to the exercise price.
- (3) Total number of shares of common stock underlying the Warrants assuming full exercise as of the Issuance Date and Second Issuance Date. Upon certain adjustments of the exercise price of the warrants, the number of shares underlying the warrants may also be adjusted such that the proceeds to be received by us would remain constant.
- (4) Total market value of shares of common stock underlying the Warrants assuming full exercise as of the Issuance Date and Second Issuance Date based on the market price of the common stock on the Issuance Date and Second Issuance Date.
- (5) Total value of shares of common stock underlying the Warrants assuming full exercise as of the Issuance Date and Second Issuance Date based on the exercise price.
- (6) Discount to market price calculated by subtracting the total conversion price (result in footnote (5)) from the combined market price (result in footnote (4)). The result of an exercise of the Warrants at the exercise price and a sale at the market price would be a loss to the Selling Stockholder. Since the closing price of our common stock is less than the Warrants' exercise price, the Warrants are out of the money and no profit would be realized as of the Issuance Date and Second Issuance Date.

***Combined Total Possible Profit Selling Stockholders Could Realize***

The following table summarizes the potential proceeds available to the Company pursuant to the financing with the Investors and the Investors' return on investment. For purposes of this table, we assumed that the aggregate of \$2,000,000 in Notes were issued on July 25, 2006, even though the Investors are not obligated to pay to us the third tranche of \$700,000 until this registration statement is declared effective by the SEC, and that the Investors exercise all of the in-the-money Warrants, if any, on a cash basis.

<b>Gross Proceeds Payable to Company<sup>(1)</sup></b>	<b>Maximum Possible Payments by Company<sup>(2)</sup></b>	<b>Net Proceeds to Company<sup>(3)</sup></b>	<b>Combined Total Possible Profit to Investors<sup>(4)</sup></b>	<b>All Payments + Possible Profit / Net Proceeds<sup>(5)</sup></b>	<b>All Payments + Possible Profit / Net Proceeds Averaged Over 3 Years<sup>(6)</sup></b>
\$2,000,000	\$418,467.66	\$1,835,000	\$1,424,657.48	100.44%	33.48%

(1) Total amount of the Notes.

(2) Total maximum payments payable by Company, includes finder's fees of \$130,000, structuring and due diligence fees of \$35,000, maximum possible interest of

\$190,379.50 and maximum possible liquidated damages of \$63,088.16. We also incurred \$65,000 in legal fees for the transaction and filing of this registration statement, which would increase the possible maximum payments by Company to \$503,467.66 and reduce the net proceeds to Company to \$1,750,000.

- (3) Total net proceeds to the Company including the \$130,000 finder's fee and \$35,000 structuring and due diligence fees. We also incurred \$65,000 in legal fees for the transaction and filing of this registration statement.
- (4) Total possible profit to the Investors is based on the aggregate discount to market price of the conversion of the Notes and cashless exercise of Warrants. The Notes' conversion price is calculated by the average of the lowest three (3) intraday trading prices for our common shares during the twenty (20) trading days prior to the date the Notes were issued on July 25, 2006 (\$0.243 was the average), less a 40% discount. The result of an exercise of the Warrants at the exercise price and a sale at the market price would be a loss to the Selling Stockholder. Since the current closing price of our common stock is less than the Warrants' exercise price, the Warrants are out of the money and no profit would be realized as of April 5, 2007.
- (5) Percentage equal to the maximum possible payments by us in the transaction (\$418,467.66) plus total possible discount to the market price of the shares underlying the convertible debentures (\$1,424,657.48), plus profit from 10,000,000 warrants in the money as of the Issuance Date and Second Issuance Date (\$0), divided by the net proceeds to the Company resulting from the sale of the Notes (\$1,835,000).

(6) Calculated by dividing 100.44% (footnote 5) by 3.

### **Prior Securities Transactions with Selling Stockholders**

We have not engaged in any prior securities transactions with the Selling Stockholders, any affiliates of the Selling Stockholders, or any person with whom any Selling Stockholder has a contractual relationship regarding the transaction (or any predecessors of those persons).

### **Shares Outstanding Prior to the Transaction**

The following table discloses certain information comparing the number of shares outstanding prior to the transaction, number of shares registered by the Selling Stockholders, or their affiliates, in prior registration statements (along with that number still held and number sold pursuant to such prior registration statement) and the number of shares registered for resale in this Registration Statement relating to the financing transaction.

Number of shares outstanding prior to convertible note transaction held by persons other than the Selling Stockholders, affiliates of the Company and affiliates of the Selling Stockholders.	6,561,398
Number of shares registered for resale by Selling Stockholders or affiliates in prior registration statements.	0
Number of shares registered for resale by Selling Stockholders or affiliates of Selling Stockholders that continue to be held by Selling Stockholders or affiliates of Selling Stockholders.	0
Number of shares sold in registered resale by Selling Stockholders or affiliates of Selling Stockholders.	0
Number of shares registered for resale on behalf of Selling Stockholders or affiliates of Selling Stockholders in current transaction.	2,187,133

### **Repayment, Shorting and Prior Transactions with Selling Stockholders**

The Company intends to repay the overlying securities and believes that it will have the financial ability to make all payments on the Notes when they become due and payable. To the best of our knowledge, and based on information obtained from the Selling Stockholders, none of the selling shareholders have an existing short position in the Company's common stock.

Other than its issuance and sale of the Notes and the Warrants to the Selling Stockholders, the Company has not in the past three (3) years engaged in any securities transaction with any of the Selling Stockholders, any affiliates of the Selling Stockholders, or, after due inquiry and investigation, to the knowledge of the management of the Company, any person with whom any Selling Stockholder has a contractual relationship regarding the transaction (or any predecessors of those persons). In addition, other than in connection with the contractual obligations set forth in the transaction documents filed as Exhibits to our Form 8-K filed August 4, 2006, including the (i) the Securities Purchase Agreement, (ii) the Notes and the Warrants and (iii) the Security Agreement, (iv) the Intellectual Property Security Agreement, the Company does not have any agreements or arrangements with the Selling Stockholders with respect to the performance of any current or future obligations.

## **RISK FACTORS**

### **Risks Related to Our Business**

*We are subject to various risks that may materially harm our business, financial condition and results of operations. You should carefully consider the risks and uncertainties described below and the other information in this filing before deciding to purchase our common stock. If any of these risks or uncertainties actually occurs, our business, financial condition or operating results could be materially harmed. In that case, the trading price of our common stock could decline.*

**We have historically lost money and losses may continue in the future, and this may adversely impact our business.**

Since our inception, through December 31, 2006 we have not been profitable and have lost money on both a cash and non-cash basis. For the year ended December 31, 2006, we recorded a loss of operations of \$5,186,557. Our accumulated deficit was \$5,361,997 as of December 31, 2006. Future losses are likely to occur, as we are dependent on spending money to evaluate and pursue motor sports development projects. No assurances can be given that we will be successful in maintaining operations or reaching profitable operations. Accordingly, we may continue to experience liquidity and cash flow problems.

**Our limited operating history makes it difficult or impossible to evaluate our performance and make predictions about our future.**

Due to our limited operating history, it is difficult to make an evaluation of our future performance can be made. You should be aware of the difficulties normally encountered by motorsports companies similarly situated to us and the high rate of failure of such enterprises. If we do not successfully address the risks facing us, then our future business prospects will be significantly limited and, as a result, the trading price of our common stock would likely decline significantly. You should consider the likelihood of our future success in view of our limited operating history, as well as the complications frequently encountered by other companies in the early stages of development. If we encounter problems, additional costs, difficulties, complications or delays in connection with our motorsports activities, it will have a material adverse effect on its business, results of operations and financial condition, and as a result, we could be forced to cease our business operations.

**We will need to raise additional capital or debt funding to sustain operations, and our inability to obtain adequate financing may result in us curtailing or ceasing our business operations**

Unless we can become profitable, we will require additional capital to commence and sustain operations and will need access to additional capital or additional debt financing to grow. In addition, to the extent that we have a working capital deficit and we will need to raise capital to repay the deficit and provide more working capital to permit growth in revenues. We cannot assure you that financing whether from external sources or related parties will be available if needed or on favorable terms. Our inability to obtain adequate financing will result in the need to reduce the pace of implementing our business objectives. Any of these events could be materially harmful to our business, which would force us to curtail or cease our business operations, thus resulting in a lower stock price.

**We have been the subject of a going concern opinion from December 31, 2006 and 2005 from our independent auditors, which means that we may not be able to continue operations unless we can become profitable or obtain additional funding.**

Our independent auditors have added an explanatory paragraph to their audit opinions issued in connection with our financial statements for the year ended December 31, 2006, which states that the financial statements raise substantial doubt as to our ability to continue as a going concern. Our ability to make operations profitable or obtain additional funding will determine our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. We will have to raise additional funds to meet our current obligations and to cover operating expenses through the year ending December 31, 2007. If we are not successful in raising additional capital we may not be able to continue as a going concern.

**We are subject to a working capital deficit, which means that our current assets on December 31, 2006 were not sufficient to satisfy our current liabilities.**

We had a working capital deficit of \$398,510 at December 31, 2006, which means that our current liabilities as of that date exceeded our current assets on December 31, 2005 by \$173,086. Current assets are assets that are expected to be converted to cash within one year and, therefore, may be used to pay current liabilities as they become due. Our working capital deficit means that our current assets on December 31, 2006 were not sufficient to satisfy all of our current liabilities on that date. We will have to raise capital or debt to fund the deficit or cease our business operations.

**Our common stock may be affected by limited trading volume and may fluctuate significantly, and this may adversely affect your investment.**

There has been a limited public market for our common stock and there can be no assurance that a more active trading market for our common stock will develop. An absence of an active trading market could adversely affect our



shareholders' ability to sell our common stock in short time periods, or possibly at all. Our common stock has experienced in the past, and is likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. These fluctuations may also cause short sellers to enter the market from time to time in the belief that we will have poor results in the future. We cannot predict the actions of market participants and, therefore, can offer no assurances that the market for our stock will be stable or appreciate over time.

**Additional financing may potentially dilute the value of our stockholders' shares.**

We will need to raise additional capital to fund our anticipated future expansion and implement our business plan. Any additional financing may also involve dilution to our then-existing stockholders, which could result in a decrease in the price of our common stock.

**We depend on key personnel and our failure to attract or retain key personnel could harm our business.**

Our success largely depends on the efforts and abilities of our key executive and consultants, including A. Robert Koveleski, our President and Chief Executive Officer, and consultant, Steve B. Pinson, consultant d/b/a Pinson LLC. The loss of the services of Messrs. Pinson and Koveleski could materially harm our business because of the cost and time necessary to replace and train a replacement. Such a loss would also divert management attention away from operational issues.

**New business ventures or acquisitions that we may undertake would involve a number of inherent risks, any of which could cause us not to realize the benefits anticipated to result.**

We continually seek to expand our operations through acquisitions of businesses and assets. These transactions involve various inherent risks, such as:

- uncertainties in assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition or other transaction candidates;
- the potential loss of key personnel of an acquired business;
- the ability to achieve identified operating and financial synergies anticipated to result from an acquisition or other transaction;
- problems that could arise from the integration of the acquired or new business;
- unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition or other transaction rationale; and
- unexpected development costs that adversely affect our profitability.

Any one or more of these factors could cause us not to realize the benefits anticipated to result from the acquisition of businesses or assets or the commencement of a new business venture.

**We have relied on capital contributed by related parties, and such capital may not be available in the future.**

From October 2005 through October 27, 2006 we financed our operations through advances from the Company's former President, Davy Jones. Prior to October 2005, other shareholders had advanced funds to pay expenses incurred by the Company from time to time. As of December 31, 2006, all notes payable to related parties have been paid. As of December 31, 2005, the Company had notes payable totaling \$60,764 to Mr. Jones' affiliate entities for funds advanced. As of December 31, 2005, the Company had a note payable in the amount of \$10,127 to Fast One, Inc. and a note payable in the amount of \$50,637 to DJ Motorsports, Inc.

Our future cash requirements will depend on many factors, including new race track acquisitions. We do not expect to generate a positive cash flow from operations until we complete successful acquisitions of race tracks and other motor sports properties. We intend to seek additional funding through public or private financing transactions. Successful

future operations are subject to a number of technical and business risks, including our continued ability to obtain future funding, satisfactory product development and market acceptance for our products.

Although we have been paying back these loans from Mr. Jones, we may be unable to repay the remainder as planned and may have to look again to Mr. Jones for assistance in financing if we are unable to obtain future financing. There is no guarantee that Mr. Jones will have financial resources available to assist in our funding.

**We are subject to new corporate governance and internal controls reporting requirements, and our costs related to compliance with, or our failure to comply with existing and future requirements could adversely affect our business.**

We face new corporate governance requirements under the Sarbanes-Oxley Act of 2002, as well as new rules and regulations subsequently adopted by the SEC. These laws, rules and regulations continue to evolve and may become increasingly stringent in the future. In particular, we will be required to include management and auditor reports on internal controls as part of our annual report for the year ended December 31, 2006 pursuant to Section 404 of the Sarbanes-Oxley Act. We cannot assure you that we will be able to fully comply with these laws, rules and regulations that address corporate governance, internal control reporting and similar matters. Failure to comply with these laws, rules and regulations could materially adversely affect our reputation, financial condition and the value of our securities.

**Our success will depend partly on our ability to operate without infringing on or misappropriating the proprietary rights of others.**

We may be sued for infringing on the intellectual property rights or misappropriating the proprietary rights of others. Intellectual property litigation is costly, and, even if we prevail, the cost of such litigation could adversely affect our business, financial condition and results of operations. In addition, litigation is time consuming and could divert management attention and resources away from our business. If we do not prevail in any litigation, we could be required to stop the infringing activity and/or pay substantial damages. Under some circumstances in the United States, these damages could be triple the actual damages the patent holder incurs. If we have supplied infringing products to third parties for marketing or licensed third parties to manufacture, use or market infringing products, we may be obligated to indemnify these third parties for any damages they may be required to pay to the patent holder and for any losses the third parties may sustain themselves as the result of lost sales or damages paid to the patent holder.

If a third party holding intellectual property rights successfully asserts an infringement claim with respect to any of our products, we may be prevented from manufacturing or marketing our infringing product in the country or countries covered by the patent we infringe, unless we can obtain a license from the patent holder. Any required license may not be available to us on acceptable terms, or at all. Some licenses may be non-exclusive, and therefore, our competitors may have access to the same technology licensed to us. If we fail to obtain a required license or are unable to design around a patent, we may be unable to market some of our anticipated products, which could have a material adverse effect on our business, financial condition and results of operations.

**Shareholders must rely on management for the operation of the company.**

All decisions with respect to the operation of ANRC and development, production and marketing of our products and services, will be made exclusively by management. Our success will, to a large extent, depend on the quality of the management of the company. In particular, we will depend on the services of our board members and officers. Management believes that these individuals have the necessary business experience to supervise the management of the company and production and commercial exploitation of our products, however, there can be no assurance that they will perform adequately or that our operations will be successful. Shareholders will have no right or power to take part in the management of the company, for the most part, except to the extent of voting for the members of the Board of Directors each year. Accordingly, no person should purchase any of the stock offered hereby unless such prospective purchaser is willing to entrust all aspects of the management of the company to management and has evaluated management's capabilities to perform such functions.

**Our quarterly operating results will fluctuate.**

Our quarterly operating results will fluctuate for many reasons, including:

- our ability to retain existing customers, attract new customers and satisfy our customers' demands,
  - our ability to acquire merchandise, manage our inventory and fulfill orders,
  - changes in gross margins of our current and future products, services, and markets,
  - introduction of our new sites, services and products or those of competitors,
- changes in usage of the Internet and online services and consumer acceptance of the Internet and online commerce,
  - timing of upgrades and developments in our systems and infrastructure,
  - the level of traffic on our Web site,
- the effects of acquisitions and other business combinations, and related integration,

technical difficulties, system downtime or Internet brownouts,  
our ability to properly anticipate demand,  
our level of merchandise returns,  
disruption of our ongoing business,  
problems retaining key managerial personnel,  
expenses associated with amortization of goodwill and other purchased intangible assets,  
additional operating losses and expenses of acquired businesses, if any, and  
impairment of relationships with existing employees, customers and business partners.

### **Risks Related to Our Common Stock and Its Market**

**If the ownership of our common stock continues to be somewhat concentrated in shares owned by our management, it may prevent you and other stockholders from influencing significant corporate decisions and may result in conflicts of interest that could cause our stock price to decline.**

As of April 23, 2007, our executive officer, director (A. Robert Koveleski, Chairman, Chief Executive Officer, President, Chief Financial Officer and Secretary), and his affiliate (SW International, LLC, for which A. Robert Koveleski, is the Managing Member of SW International and has sole voting and investment control over these shares) beneficially own or control approximately 48.55% of the outstanding shares of our common stock and 100% of the outstanding shares of our Series A Convertible Preferred Stock designation (our common shares vote on a one vote per share basis, while each share of our Series A Convertible Preferred entitles the holder to 300 votes). Accordingly, our current executive officers, directors and their affiliates will have some control over the outcome of corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transactions. These stockholders may also delay or prevent a change of control of us, even if such a change of control would benefit our other stockholders. The concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

**We may issue additional preferred stock in the future, and the terms of the preferred stock may reduce the value of your common stock.**

We are authorized to issue up to 10,000,000 shares of preferred stock in one or more series. Our Board of Directors will be able to determine the terms of preferred stock without further action by our stockholders. We have designated 2,000,000 shares of preferred stock as Series A Convertible Preferred Stock which is convertible into 300 shares of common stock, 1,000,000 of which were issued to management and are outstanding as of April 23, 2007. To the extent we issue preferred stock, it could affect your rights or reduce the value of your common stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. These terms may include voting rights, and may include preferences as to dividends and liquidation, conversion and redemption rights, and sinking fund provisions.

**We have not, and currently do not anticipate, paying dividends on our common stock.**

We have never paid any dividend on our common stock and do not plan to pay dividends on our common stock for the foreseeable future. We currently intend to retain future earnings, if any, to finance operations, capital expenditures and to expand our business.

**There is a limited market for our common stock which makes it difficult for investors to engage in transactions in our securities.**

Our common stock is quoted on the OTCBB under the symbol “ANRC”. There is a limited trading market for our common stock. If public trading of our common stock does not increase, a liquid market will not develop for our common stock. The potential effects of this include difficulties for the holders of our common shares to sell our common stock at prices they find attractive. If liquidity in the market for our common stock does not increase, investors in our company may never realize a profit on their investment.

**Our stock is thinly traded, which can lead to price volatility and difficulty liquidating your investment.**

The trading volume of our stock has been low, which can cause the trading price of our stock to change substantially in response to relatively small orders. In addition, during the last two fiscal years and interim quarters, our common stock has traded pre-split as low as \$0.11 and as high as \$12.00, and post-split as low as \$0.18 and as high as \$2.45. Both volume and price could also be subject to wide fluctuations in response to various factors, many of which are beyond our control, including actual or anticipated variations in quarterly and annual operating results and general market perception. An absence of an active trading market could adversely affect our shareholders’ ability to sell our common stock in short time periods, or possibly at all. In addition, we believe that factors such as changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. These fluctuations may also cause short sellers to enter the market from time to time in the belief that we will have poor results in the future. We cannot predict the actions of market participants and, therefore, can offer no assurances that the market for our stock will be stable or appreciate over time.

**A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.**

If our shareholders sell substantial amounts of our common stock in the public market, including shares issued upon the exercise of outstanding options or warrants, the market price of our common stock could fall. These sales also may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

**Our common stock is deemed to be “penny stock”, which may make it more difficult for investors to sell their shares due to suitability requirements.**

Our common stock is deemed to be “penny stock” as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These requirements may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline. Penny stocks are stock:

· With a price of less than \$5.00 per share;

· That are not traded on a “recognized” national exchange;

· Whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ listed stock must still have a price of not less than \$5.00 per share); or

· In issuers with net tangible assets less than \$2.0 million (if the issuer has been in continuous operation for at least three years) or \$10.0 million (if in continuous operation for less than three years), or with average revenues of less than \$6.0 million for the last three years.

Broker-dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, broker-dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. Many brokers have decided not to trade "penny stocks" because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. In the event that we remain subject to the "penny stock rules" for any significant period, there may develop an adverse impact on the market, if any, for our securities. Because our securities are subject to the "penny stock rules," investors will find it more difficult to dispose of our securities. Further, for companies whose securities are traded on the Pink Sheets, it is more difficult: (i) to obtain accurate quotations, (ii) to obtain coverage for significant news events because major wire services, such as the Dow Jones News Service, generally do not publish press releases about such companies, and (iii) to obtain needed capital.

**We failed to have a registration statement become effective within 135 days after the initial closing date of July 26, 2006 with our recent financing and as such we are subject to liquidated damages. Liquidated damages may be paid in cash or in shares of our common stock pursuant to the Securities Purchase Agreement and “Conversion Default Payments” may be paid in cash or shall be convertible into shares of our common stock pursuant to the Notes.**

We received financing from the Selling Stockholders listed in this document on July 26, 2006 and September 12, 2006. Such financing required us to file a registration statement and have the registration statement declared effective by the SEC within 135 days of the closing of the financing, which occurred on July 26, 2006. Since we withdrew our initial registration statement and a registration statement was not declared effective within 135 days of July 26, 2006, we began incurring liquidated damages equal to 3% of the principal of the Notes issued for each 30 day period that a



registration statement was not declared effective after December 7, 2006.

**The conversion of the promissory notes based on our recent financing is based on an average of our lowest intraday trading prices of our common stock over a certain period of time prior to conversion and the decrease of the intraday trading price will result in issuance of a significant increase of shares resulting in dilution to our shareholders.**

14

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The conversion of the promissory notes in our recent financing is based on the applicable percentage of the average of the lowest three (3) intraday trading prices for the Common Stock during the twenty (20) trading day period prior to conversion. The “Applicable Percentage” means 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty days of the closing and (ii) 60% in the event that the Registration Statement becomes effective within one hundred and twenty days from the Closing. The price of our common shares may fluctuate and the lower intra-day trading price in the future, will result in a conversion ratio resulting in issuance of a significant amount of our common shares to the promissory note holders. This will result in our present shareholders being diluted.

**Selling shareholders may impact our stock value through the execution of short sales which may decrease the value of our common stock.**

Short sales are transactions in which a selling shareholder sells a security it does not own. To complete the transaction, a selling shareholder must borrow the security to make delivery to the buyer. The selling shareholder is then obligated to replace the security borrowed by purchasing the security at the market price at the time of replacement. The price at such time may be higher or lower than the price at which the security was sold by the selling shareholder. If the underlying security goes down in price between the time the selling shareholder sells our security and buys it back, the selling shareholder will realize a gain on the transaction. Conversely, if the underlying security goes up in price during the period, the selling shareholder will realize a loss on the transaction. The risk of such price increases is the principal risk of engaging in short sales. The selling shareholders in this registration statement could short the stock by borrowing and then selling our securities in the market, and then converting the stock through either the Note or Warrants at a discount to replace the security borrowed. Because the selling shareholders control a large portion of our common stock, the selling shareholders could have a large impact on the value of our stock if they were to engage in short selling of our stock. Such short selling could impact the value of our stock in an extreme and volatile manner to the detriment of other shareholders.

**Shares eligible for public sale in the future could decrease the price of our shares of common stock and reduce our future ability to raise capital.**

Sales of substantial amounts of shares of our common stock in the public market could decrease the prevailing market price of our common stock. If this is the case, investors in our shares of common stock may be forced to sell such shares at prices below the price they paid for their shares, or in the case of the investors in the July 2006 financing, prices below the price they converted their notes and warrants into shares. In addition, a decreased market price may result in potential future investors losing confidence in us and failing to provide needed funding. This will have a negative effect on our ability to raise equity capital in the future.

### **USE OF PROCEEDS**

The selling stockholders are selling shares of common stock covered by this prospectus for their own account. We will not receive any of the proceeds from the resale of these shares. We have agreed to bear the expenses relating to the registration of the shares for the selling security holders.

### **PENNY STOCK CONSIDERATIONS**

Broker-dealer practices in connection with transactions in “penny stocks” are regulated by certain penny stock rules adopted by the SEC. Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system). Penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the

compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The broker-dealer must also make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These requirements may have the effect of reducing the level of trading activity, if any, in the secondary market for a security that becomes subject to the penny stock rules.

### **SELLING STOCKHOLDERS**

On July 25, 2006, we entered into a Securities Purchase Agreement for a total subscription amount of \$2,000,000 that included Stock Purchase Warrants and Callable Secured Convertible Notes with AJW Capital Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millennium Capital Partners II, LLC (Collectively, the Investors"). The initial funding of \$700,000 of which we received net proceeds of \$645,000 was completed on July 26, 2006 with the following parties and evidenced by callable secured convertible notes: AJW Capital Partners, LLC invested \$67,900; AJW Offshore, Ltd. invested \$413,000; AJW Qualified Partners, LLC invested \$210,000; and New Millennium Capital Partners II, LLC invested \$9,100.

On September 12, 2006, the second tranche of funding of \$600,000 (we received net proceeds of \$600,000) was completed with the following parties and evidenced by callable secured convertible notes: AJW Partners, LLC invested \$66,000; AJW Offshore, Ltd. invested \$366,000; AJW Qualified Partners, LLC invested \$162,000; and New Millennium Capital Partners II, LLC invested \$6,000.

Upon effectiveness of the Registration Statement, the Investors will purchase Notes aggregating \$700,000 for the third and final tranche of funding.

On July 25, 2006, the Investors also received the following seven year warrants to purchase shares of our common stock, exercisable at \$.30 per share: AJW Capital Partners, LLC - 970,000 warrants; AJW Offshore, Ltd. - 5,900,000 warrants; AJW Qualified Partners, LLC - 3,000,000 warrants; and New Millennium Capital Partners II, LLC - 130,000 warrants (the "Warrants"). On April 18, 2007, we issued to the Investors an additional 1,000,000 warrants at an exercise price of \$0.50. The Warrants are not subject to registration rights.

The Investors secured convertible notes are convertible into shares of our common stock at a variable conversion price based upon the applicable percentage of the average of the lowest three (3) intraday trading prices for the Common Stock during the twenty (20) trading day period prior to conversion. The "Applicable Percentage" means 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty days of the closing and (ii) 60% in the event that the Registration Statement becomes effective within one hundred and twenty days from the Closing. Under the terms of the callable secured convertible note and the related warrants, the callable secured convertible note and the warrants are exercisable by any holder only to the extent that the number of shares of common stock issuable pursuant to such securities, together with the number of shares of common stock owned by such holder and its affiliates (but not including shares of common stock underlying unconverted shares of callable secured convertible notes or unexercised portions of the warrants) would not exceed 4.99% of the then outstanding common stock as determined in accordance with Section 13(d) of the Exchange Act.

Upon full subscription to the Securities Purchase Agreement and full conversion of the Notes, the total shares being registered are 2,187,133 as follows: (i) AJW Capital Partners, LLC - 212,152 shares of common stock issuable in connection with the conversion of the callable secured convertible note; (ii) AJW Offshore, Ltd. - 1,290,408 shares of common stock issuable in connection with the conversion of the callable secured convertible note;; (iii) AJW Qualified Partners, LLC - 656,140 shares of common stock issuable in connection with the conversion of the callable secured convertible note; and (iv) New Millennium Capital Partners II, LLC - 28,433 shares of common stock issuable in connection with the conversion of the callable secured convertible note.

The following table sets forth the name of the Selling Stockholders, the number of shares of common stock beneficially owned by each of the selling stockholders as of April 23, 2007 and the number of shares of common stock being offered by the Selling Stockholders. The shares being offered hereby are being registered to permit public secondary trading, and the selling stockholders may offer all or part of the shares for resale from time to time. However, the Selling Stockholders are under no obligation to sell all or any portion of such shares nor are the Selling Stockholders obligated to sell any shares immediately upon effectiveness of this Prospectus. All information with respect to share ownership has been furnished by the Selling Stockholders.

<b>Name of Selling Stockholder <sup>(11)</sup></b>	<b>Shares of Common Stock Owned Prior to the</b>	<b>Percent of Common Shares Owned Prior to the Offering</b>	<b>Shares of Common Stock to be Sold in the Offering</b>	<b>Number of Shares Owned After the Offering</b>	<b>Percent of Shares Owned After Offering</b>
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**Offering** <sup>(1)</sup>

AJW Capital Partners, LLC <sup>(7)</sup>	0	0	212,152 <sup>(2)(3)</sup>	0	0%
AJW Offshore, Ltd. <sup>(8)</sup>	0	0	1,290,408 <sup>(2)(4)</sup>	0	0%
AJW Qualified Partners, LLC <sup>(9)</sup>	0	0	656,140 <sup>(2)(5)</sup>	0	0%