

MANCHESTER, INC.

(OTC BB:MNCS)

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Recent Price: **\$3.20**
 Target Price: **\$9.00**
 (12-month)

SPECULATIVE BUY RATING

Hedge Fund Backing for its Buy-Here/Pay-Here auto dealership acquisition strategy

Company Overview

Manchester, Inc. (OTC BB:MNCS) is a development stage company, that engages in the acquisition and management of 'Buy-Here/Pay-Here' automobile dealerships in the United States. Buy-Here/Pay-Here dealerships sell and finance used cars to individuals with limited credit histories or past credit problems. It acquired Nice Cars, Inc. that operates 6 automotive sales lots, which focus exclusively on the Buy-Here/Pay-Here segment of the used car market; and Nice Cars Capital Acceptance Corporation, a financial services affiliate of Nice Cars, Inc., which purchases the retail sales contracts of Nice Cars, Inc. and assumes all rights and responsibilities with respect to sales contracts with varying terms, in October 2006.

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- The "Buy-Here Pay-Here" auto business is a **\$50 billion business that sells pre-owned cars to sub-prime buyers** at high margins and high rates.
- Manchester, Inc. has recently received a **credit commitment of \$300 million** to fund its **roll up strategy to acquire Buy-Here/Pay-Here auto dealerships** nationwide.
- The current disparity between the availability, magnitude, and terms of financing to some "Buy-Here Pay-Here" auto dealers versus others presents Manchester with an opportunity to become a **dominant player in a market due to a particular expertise and access to funding that competitors do not have.**
- **\$75 million** of that commitment has already been **used by Manchester, Inc. to acquire and expand Nice Cars, Inc.**, a Buy-Here/Pay-Here car sales company and **Nice Cars Capital Acceptance Corporation**, an affiliate credit acceptance company.
- Manchester, Inc. **expects to utilize the remainder of the \$300 million credit commitment** to execute similar **acquisitions that will complement** this Nice Cars strategy. Recent Form 8-K SEC Filings from Manchester, Inc. contains audited financials of Nice Cars and Nice Cars Capital Acceptance Corporation, which have become a wholly-owned subsidiaries, **reflecting vehicle sales in 2005 of about \$76 million** (up 32.75% from 2004) and **Earnings of \$6.3 million** (up 74.29% from 2004).
- **Nice Cars & Nice Cars Capital Acceptance Corp 2006 full year vehicle revenues are expected to exceed \$100 million** if the final quarter matches Sept. revenues.
- Manchester's **business model can be extended** beyond the simple model of attaining financing, identifying acquisitions, and operating the business, as the Company has **advanced opportunities already clearly defined that will springboard net income by compiling interest income on top of the vehicle sales revenue.**
- Similar to the method used by Ginnie Mae in packaging Mortgage Backed Securities (MBS) for sale to the street, MNCS intends to package and sell Asset Backed Securities (ABS), insured by actual vehicles the company has sold, and use a portion of the proceeds to pay off acquisition loans and **revolve its credit commitment repeatedly.**
- **We believe the upside potential in the shares outweighs the downside risks. If MNCS is able to utilize the remaining portion of its credit commitment to execute another acquisitions of similar to that of Nice Cars, it can result in consolidated revenues of \$450 million by FY2008. Under our assumption that Manchester can successfully close further acquisitions and implement its securitization strategy, we rate the shares in the SPECULATIVE BUY rating category. Our positive stance is as a direct result of the market capitalization that appears modest in context of our conservative valuation framework and the pending Americars and the remaining 4 earmarked acquisitions that could translate into another \$200 million in annual sales. See INVESTMENT THESIS & RECOMMENDATION (Page 12-15) for an in-depth discussion.**

Manchester, Inc.	
<i>(all figures in millions)</i>	
52 Week Hi/Lo Range	8.60/2.70
Fiscal Year End	30-Nov
Shares Outstanding	32.8
Float (approximately)	19.7
Share price (11/27/2006)	3.20
Market Capitalization	104.9
Average Volume (3 months)	0.472
Insider Ownership (approximately)	20%
Institutional Ownership	NA
Enterprise Value (EV)	106.53
Long Term Debt (08-31-06)	1.640
Total Cash (08-31-06)	0.035
11/30/2006 11/30/2007	
FY2006 E FY2007 E	
Earnings Per Share (EPS)	0.227 0.498
Book Value (\$/share)	0.557 1.237
FY2006 E FY2007 E	
Total Revenue	110.000 350.000
Cost of Sales	53.570 169.750
Gross Profit/Loss	56.430 180.250
Operating expenditures	49.060 154.000
Income/Loss from Operations	7.370 26.250
Tax Items	0.073 3.938
Net Income	7.443 22.313
NA = Not applicable/Not Available. A = Actual Reported figures E = Estimates	
Balance Sheet & Financial Statement Extracts (12-31-2005)	
Current Assets	58.366
Current Liabilities	37.625
Total Assets	60.168
Total Shareholders Equity	18.250
Operating cashflow (FY 2005)	-6.489
Capital Structure (10-11-2006)	
Authorized Common Stock	100 000 000
Authorized Preferred Stock	10 000 000
Issued Preferred Stock	nil

THE COMPANY

Manchester, Inc. (OTC BB: MNCS) headquartered in Dallas, Texas, seeks to **create the preeminent company in the "Buy-Here/Pay Here" auto business**; selling and financing used vehicles (Sport and/or Luxury Cars, SUVs, Trucks and Vans) to credit impaired borrowers. The Company was incorporated in the State of Nevada, U.S.A., on August 27, 2002. The Company's stock began trading on the over-the-counter bulletin board on November 16, 2004.

The company **intends to sell acquired and newly generated receivable portfolios through a securitization process. By identifying target companies, utilizing committed capital, and acquiring market leaders as wholly-owned subsidiaries**, Manchester can make huge strides in the industry.

On October 4, 2006, Manchester acquired **Nice Cars, Inc. and Nice Cars Acceptance Corporation**. Nice Cars, Inc., headquartered in **Chattanooga, Tennessee**, operates six automotive sales lots that focus exclusively on the **Buy-Here/Pay-Here segment** of the used car market. **Buy- Here/Pay-Here dealerships sell and finance used cars to individuals with limited credit histories or past credit problems**. Nice Cars Acceptance is a financial services affiliate of Nice Cars, Inc. that purchases the retail sales contracts of Nice Cars, Inc. and assumes all rights and responsibilities with respect to sales contracts with varying terms, generally ranging from 24- 48 months. **This first acquisition of Nice Cars and Nice Cars Capital Acceptance Corp., already delivers projected annual revenues of around \$110 million in FY2006**. Under the terms of the agreement, Manchester, Inc. **paid an aggregate of \$25 million in cash and issued 6.25 million shares** of the Company's common stock to the previous owners of the two entities, aggregating to a **total value of \$72.5 million** based upon the average trading price of the Company's common stock on the day of Closing. In addition, the owners of these entities received 5 year employment contracts to continue running the dealerships. The Company financed the cash portion of the purchase price through the utilization of its \$300 million credit facility.

Nice Cars founder and CEO Ray Lyle was a major reason in Manchester's decision to acquire the company. Recently named "The 2005 National Quality Dealer of the Year" by the National Independent Automobile Dealers Association, Lyle has been able to outperform competitors on comparatively smaller lot space and is highly respected in the car dealer industry. The company's purpose and focus is to develop the businesses that they require under its Buy-Here/Pay-Here Auto Dealership Strategy and to commit and devote its resources towards that function.

As of October 4, 2006, the Company's only subsidiaries were Nice Cars, Inc., Nice Cars Capital Acceptance Corporation, and Nice Cars Funding LLC, none that owned other entities. Nice Cars, Inc. employed approximately 50 individuals full time, and Nice Cars Capital Acceptance Corporation employed approximately 17 persons full time as of the date of acquisition.

There are approximately 55 shareholders of record of MNCS common stock as of October 11, 2006. The Company's common stock is held of record by several brokerage houses with respect to which the underlying beneficial account-ownership is not commercially feasible to quantify. There are currently 100,000,000 shares of common stock authorized by the Company's Certificate of Incorporation. There are currently 10,000,000 shares of preferred stock authorized by the Company's Certificate of Incorporation, none of which are issued or outstanding.

Business Operations of Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation

Nice Cars, Inc. was incorporated under the laws of the state of Georgia on May 21, 1998. Nice Cars Capital Acceptance Corporation was incorporated under the laws of the state of Georgia on May 10, 2000.

Nice Cars, Inc. operates six sales lots that maintain an inventory that ranges from approximately 300 to 500 vehicles at any given time, featuring a variety of makes and models (with ages usually ranging from 3 to 6 years) and a range of sales prices generally between \$10,000 and \$14,000. Nice Cars, Inc. expects to continue to focus on selling affordable transportation to its customers. In general, Nice Cars, Inc. does not sell luxury cars. The principal geographic market of Nice Cars, Inc. is a 25-mile radius from each of the six branches of operation situated in the two US states of Georgia and Tennessee. Only a few sales originate outside of each geographic area. Nice Cars, Inc. employs a full time car buyer who travels to vehicle auctions throughout the Southeastern United States. Each vehicle is put through a **30-point quality check/inspection**, and mechanical problems are identified and fixed before the car is offered for sale. **To attract customers, Nice Cars, Inc. uses a mixture of target advertising in print, radio and television serving each local market**. In addition, customer referrals constitute a significant part of the business of Nice Cars, Inc. Nice Cars, Inc. will pay a \$100 cash bonus to a customer who successfully refers another customer purchase from Nice Cars, Inc.

Nice Cars Capital Acceptance Corporation is a financial services affiliate of Nice Cars, Inc., and was created to **distinguish vehicle operations from financing activities**. Nice Cars Capital Acceptance Corporation purchases the retail sales contracts of Nice Cars, Inc., and assumes all rights and responsibilities with respect to the retail sales contracts. These contracts have varying terms, generally ranging from 36 to 60 months, with **interest charges of up to 26% annually**. In connection with the Loan and Security Agreement which closed on September 29, 2006, between Nice Cars Funding LLC, a subsidiary of the Company, the Lender and the Collateral Agent, the Company and certain of its subsidiaries have entered into a Sale and Servicing Agreement, pursuant to which Nice Cars Capital Acceptance Corporation, a subsidiary of the Company, has agreed to sell all of its rights to the Company's special purpose wholly owned subsidiary, Nice Cars Funding LLC.

See Appendix A-1 for Analyst Certification and Important Disclosures.

All of the Receivables are collateralized for purposes of obtaining cash advances under the Loan Agreement from the Lender. Pursuant to this Sale and Servicing Agreement, the Company shall serve as the servicer for all Receivables, acting as agent, and shall manage, service and make collections on the Receivables. The Company has agreed to comply with the terms and conditions of a servicing guideline and a credit and collection policy approved by the Lender.

Credit and Collections

The Buy-Here/Pay-Here credit and collections are managed by the MNCS subsidiary Nice Cars Capital Acceptance Corporation. Only 3 out of 10 customers of Nice Cars, Inc. who apply for financing are approved. In an industry, which nationally has very high rates of default in the first six months of a contract, our default rate is approximately 15% in the first six months. Nice Cars, Inc. generally does not approve for financing a customer whose weekly car payment will exceed 25% of their current weekly gross income regardless of their debt position. Our typical customer is an employed wage earner who has lived a minimum of two years in their market area (within twenty-five miles). They must have a 2-year verifiable work history with a minimum of six months on their present job. Likewise, they must have two years of verifiable residence in the market area and be current on their mortgage or rent. There must be a telephone number in their name or the name of a verified family member at their address. All customers must complete a list of personal references.

Failure by a customer to pay generally translates to failure to properly maintain and care for the vehicle. We place a high priority on gaining possession of a default customer's car as quickly as possible. When repossession occurs and possession of the vehicle is secured quickly and, the vehicle can generally be resold.

INDUSTRY

The market for used car sales in the United States is significant. Used car retail sales typically occur through franchised new car dealerships that sell used cars or independent used car dealerships. The Company operates in the Buy Here/Pay Here segment of the independent used car sales and finance market. Buy Here/Pay Here dealers sell and finance used cars to individuals with limited credit histories or past credit problems. **Buy Here/Pay Here dealers typically offer their customers certain advantages over more traditional financing sources, such as broader and more flexible underwriting guidelines, flexible payment terms** (including scheduling payments on a weekly or bi-weekly basis to coincide with a customer's payday), and the **ability to make payments in person**, an important feature to individuals who may not have a checking account or are otherwise unable to make payments by the due date through the mail because of the timing of paychecks. Buy-Here/Pay-Here payment arrangements are often construed to be within the "sub-prime" category of financing and lending. Close to 30% of the US population does not have any banking relationships and gravitate towards Companies like Manchester that provide them a way of financing a car purchase.

The automobile financing industry is the third-largest consumer finance market in the country, after mortgage debt and revolving credit card debt. Growth in automobile financing has been fueled by increasing prices of both new and used cars, which has forced more buyers to seek financing when purchasing a car. The used automobile financing industry is served by traditional lending sources such as banks, savings and loans, and captive finance subsidiaries of automobile manufacturers, as well as by independent finance companies and Buy Here/Pay Here dealers. Despite significant opportunities, many of the traditional lending sources do not consistently provide financing to individuals with limited credit histories or past credit problems. We believe **traditional lenders avoid this market because of its high credit risk** and the associated **collection efforts**. In general, the industry is categorized according to the type of car sold (new versus used) and the credit characteristics of the borrower.

Many independent used car dealers are not able to obtain debt financing from traditional lending sources such as banks, credit unions, or major finance companies. Many of these dealers typically finance their operations through the sale of contract receivables at a discount. The "Buy-Here Pay-Here" auto business is a **\$50 billion business that sells pre-owned cars to sub-prime buyers** at high margins and high rates. These dealers typically utilize banks, insurance companies, credit unions, or other regulated lenders to provide revolving credit. Most of the time the lenders are regulated and local in nature with a focus on net worth often outside of the portfolio. After satisfying the lenders, the dealers may often experience financing restraints emanating from the regulators. Consequently, many dealers spend more time holding financing together than on building and managing the operating business. Those that are able to obtain expansion funding may do so at their peril, with lenders imposing stricter criteria that undermines liquidity and uses existing portfolio equity to subsidize additional growth. The



Manchester model addresses these issues, **welcomes expansion, eliminates personal guarantees, provides liquidity, and moves financing** from Main Street to Wall Street.

The current disparity between the availability, magnitude, and terms of financing to some "Buy-Here Pay-Here" auto dealers versus others presents Manchester with a familiar opportunity - an opportunity to become a dominant player in a market due to a particular expertise and access to funding that competitors do not have. Such opportunity existed in the past with the real estate market during the S&L crisis when cash purchases were required in assets sales through the Resolution Trust. Local businessmen were mainly brokers for deals they identified because conventional regulated funding was not available. Similar dynamics and opportunity are now present in this segment of the pre-owned car business.

COMPETITIVE ADVANTAGES

The used automotive retailing industry is highly competitive and fragmented. The Company competes principally with other independent Buy Here/Pay Here dealers, and to a lesser degree with (i) the used vehicle retail operations of franchised automobile dealerships, (ii) independent used vehicle dealers, and (iii) individuals who sell used vehicles in private transactions.

The Company competes for both the purchase and resale of used vehicles. The principal competitive factors in the sale of its used vehicles include:

- (i) the **availability of financing to consumers** with limited credit histories or past credit problems,
- (ii) the **breadth and quality of vehicle selection**,
- (iii) **pricing**
- (iv) the **convenience of a dealership's location**,
- (v) the **option to purchase a service contract**, and
- (vi) **customer service**.

The Company intends to operate its dealerships such that they are competitive in each of these areas.

Manchester brings a new philosophy to the auto dealers that will improve margins and shore up the balance sheet. Securitization of the receivables portfolio will allow for many improvements at the operation level for both the sales and credit companies.

In terms of competition, the closest comparative rival in the marketplace is **DriveTime, a private entity based in Phoenix**. DriveTime rakes in about **\$2 billion in annual revenues** and is **rumored to earn about \$200 million** in profit through operating 80 lots.

Another competitor in the Buy-Here/Pay-Here segment is **America's Car-Mart (NASDAQ NM:CRMT)**. With 90 Dealerships in nine states, **America's Car-Mart is the largest publicly held "Buy Here-Pay Here" automotive retailer in the nation**. CRMT claims to operate 89 stores and generated revenue of \$238 million during the last 12 months. This compares to almost \$76 million of audited 2005 revenue that Nice Cars generated on only five lots, a sixth lot was opened just before September 2006, September 2006 revenues were announced to be approximately \$9.3 million. MNCS has announced Nice Cars will open an additional three lots.

Manchester Inc. provides a significant value proposition to Sellers and dealerships, including:

- Removal of all personal bank guarantees.*
- Dealership is provided with Liquidity.*
- Ability to compete with financing products of competitors.*
- Ability to expand production from existing facilities.*
- Participation in growth through ownership of MNCS common stock with no direct exposure to securities matters.*
- Corporate management and financing matters will no longer be an operating issue.*
- Ability to utilize higher margin, lower payment products resulting from a securitized product.*
- Receivables can be packaged and securitized, then sold to institutional investors time and time again.*
- Capital gains treatment on the sale of their businesses.*
- Continued operational security through employment agreements.*

Due to these factors the acquisition team of Manchester has found significant interest from dealerships looking to participate in the nationwide rollout project that Manchester, Inc. has outlined and intends to pursue.

The target customers are good people with bad credit and those in the growing non-bank sector (those who can not even get a bank to open an account for them and must deal in cash). If the economy dips, this segment of the population only increases. It can be wives of deadbeats whose credit was destroyed by a husband and they are trying to rebuild on their own - it is difficult for anyone to rebuild without a vehicle. **Recessionary conditions lead to more people falling in a credit-impaired category leading to an increase in the potential customer base of Manchester.**

See Appendix A-I for Analyst Certification and Important Disclosures.

SECURITIZATION PROCESS

The securitization process can be described as follows:

The Company proceeds to package loans and the notes are sold. The largest portion of the notes (e.g. 85%) is offered to the street as 7% AAA rated insured ABS paper, backed by the vehicles themselves. The remainder e.g. 15% is serviced by Nice Cars Funding LLC, which makes up the 15% that encompasses the default portion of the portfolio.

If we use the Nice Cars subsidiary as an example of how the process would work: currently a **\$100 million receivable portfolio**, which can be sold 100% with \$85 million going to the street and \$15 million going to Nice Cars Funding LLC. With \$75 million used to purchase the company, the \$85 million cash received for the portfolio can be used to effectively cancel the acquisition-based debt, whilst also adding \$10 million of cash to the balance sheet.

The **company then continues to collect 26% interest on the \$85 million** and pay out the coupon burden it has as issuer of the **7% AAA rated asset-backed bonds**. This translates to a net interest income of about \$16 million in this example alone. If we consider the other 15% at Nice Cars Funding LLC that could easily **yield an additional \$3 million interest income** and defaults that keep the cars coming back to the lot for resale it is clear that this securitization strategy holds tremendous promise of attractive returns to MNCS shareholders if implemented and executed successfully.

From the analysis of the industry, **the only other player besides Manchester** we have identified that has access to this process and capital is **DriveTime, Inc.**, who is private and fetches about \$2 billion in revenue each year.

RECENT DEVELOPMENTS & FINANCING ACTIVITIES

Subsequent to August 31, 2006 the closing date of most recent financial statements filed, the Company entered into the following transactions:

\$300 Million Commitment

The Company executed a commitment letter dated September 28, 2006 with **Palm Beach Multi-Strategy Fund L.P.** pursuant to which they committed to provide up to **\$300 million in revolving warehouse financings for a roll up strategy to acquire captive subprime Buy-Here/Pay-Here auto receivables origination and collection businesses nationwide**. There is **no limit to the number of Financings**. Each Acquisition and Financing pursuant to the Commitment shall be subject to Palm Beach Fund's approval.

Under the terms of the agreement, MNCS will pay a **total commitment fee of \$6 million** to the extent that the **entire \$300 million is funded**. In addition, the Company has agreed to grant the fund **warrants entitling the holder to acquire up to 4 million shares** of MNCS common stock. The Warrants are exercisable at a **strike price of \$3.00 per share**. The Company will grant certain registration and anti-dilution rights to the Lender under the Warrants, provided that the Warrants will not be exercisable for a minimum period of 60 days following the date of closing of the financing deal, together with other rights and restrictions. **Palm Beach Links Capital, LP** (the general partner of the Lender) has agreed to act as the **exclusive arranger for any asset-backed (ABS) securitization**, sale or other disposition of any receivables undertaken by the Company for an **arrangement fee of 3% of the receivables securitized, sold or disposed of**. The Commitment shall terminate on September 28, 2009 or such earlier date specified by the Lender following a breach by the Company of the terms of the Commitment or an event of default under any of the advances made pursuant to the Commitment.

This Commitment replaces the commitment the Company previously obtained from another financing source.

\$75 Million Loan Agreement

In connection with the Commitment described above, **Nice Cars Funding, LLC** (Borrower), a wholly-owned Company subsidiary entered into a loan agreement with the **Palm Beach Multi Strategy Fund L.P.** (Lender). Pursuant to a Loan and Security Agreement, which was entered into on September 28, 2006, between the Borrower, the Lender and the Bank of New York, as Collateral Agent, the Lender has agreed to loan the Borrower **an amount of up to \$75 million**. The Company has initially drawn approximately \$54 million and may request additional draws on the basis of eligible collateralized receivables under the terms of the Loan Agreement. The Loan Agreement matures on September 28, 2009 unless terminated earlier in accordance with its terms.

Interest on the Loan will accrue at an interest rate equal to the lesser of: (i) the greater of prime rate (as determined daily) plus 9% or 17% per annum; or (ii) the maximum rate which may be legally charged under applicable usury law. In connection with the closing of the Loan, Manchester Inc. has paid the Lender \$1 million as a portion of the total Commitment Fee. In addition, the Company has paid all fees, costs, expenses and disbursements of the Lender in connection with legal services, origination costs, due diligence, closing of the Loan and initial interest, which in the aggregate was approximately \$1 million.

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The Company and its subsidiaries (collectively, the Guarantors) have each agreed to guaranty the Loans made under the Loan Agreement up to an amount not exceeding 10% of the amount of the Loan outstanding from time to time, pursuant to the terms of a Guaranty which closed September 28, 2006. The Guarantors have also entered into a Security Agreement with the Lender and the Collateral Agent pursuant to which each of the Guarantors has granted to the Collateral Agent and its successors and assigns, for the security and benefit of the Lender, a first priority security interest in and mortgage lien on all of the respective assets of the Guarantors.

In connection with the Loan Agreement, the Borrower, the Company and certain of its other subsidiaries have entered into a Sale and Servicing Agreement, pursuant to which Nice Cars Acceptance AcquisitionCo, Inc. (a subsidiary of the Company now doing business as Nice Cars Capital Acceptance Corporation), has **agreed to sell all of its rights to car sales contract receivables** to the Borrower. Pursuant to this Sale and Servicing Agreement, the **Company shall serve as the servicer for all Receivables, acting as agent, and shall manage, service and make collections on the Receivables.** The Company has delegated its duties as servicer to **Nice Cars Capital Acceptance Corporation as sub-servicer.** The Company and Nice Cars Capital Acceptance Corporation have agreed to comply with the terms and conditions of a servicing guideline and a credit and collection policy provided by the Lender.

Acquisition of Nice Cars, Inc and Nice Cars Capital Acceptance Corporation

On October 4, 2006, Manchester Inc. entered into 2 agreements for the acquisition of a Buy-Here/Pay-Here used car sales enterprise. The transaction consisted of the acquisition of Nice Cars, Inc., a Buy-Here/Pay-Here car sales company and Nice Cars Capital Acceptance Corporation, an affiliate credit acceptance company.

On October 4, 2006, the Company paid an aggregate of \$25 million and issued 6.25 million shares of the Company's common stock to acquire Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation. As part of the purchase price, the Company also agreed to the assumption of certain obligations and liabilities as discussed in further detail below. The Company acquired Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation pursuant to the terms of two share purchase and exchange agreements. The Company intends to continue the business of Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation through the Company's wholly owned subsidiaries, as managed by the acquired companies' former owners, Mr. Raymond Lyle and his spouse, Ms. Victoria E. Lyle.

The Company's wholly owned subsidiary, Nice Cars Operations AcquisitionCo, Inc., acquired all of the issued and outstanding shares of Nice Cars, Inc. pursuant to the terms and conditions of the Nice Cars Operations Acquisition Agreement. The parties to the agreement included Raymond Lyle and Victoria Lyle as the shareholders of Nice Cars Inc., Nice Cars, Inc., the Company and Nice Cars Operations AcquisitionCo, Inc. In exchange for all of the Nice Cars, Inc. shares, Nice Cars Operations AcquisitionCo, Inc. issued (i) 618,750 shares of the Company's common stock to the shareholders of Nice Cars Inc.; and (ii) made a payment of \$2,475,000 to these same parties. The Company utilized funds from the Loan Agreement to pay the cash portion of the purchase price for Nice Cars, Inc.

The Company's wholly owned subsidiary, Nice Cars Acceptance AcquisitionCo, Inc., acquired all of the issued and outstanding shares of Nice Cars Capital Acceptance Corporation pursuant to the terms and conditions of the Nice Cars Acceptance Acquisition Agreement. The parties to the agreement included Raymond Lyle and Victoria Lyle as shareholders of Nice Cars Capital Acceptance Corporation (the "NCA Shareholders" and together with the NCI Shareholders, the "NC Shareholders"), Nice Cars Capital Acceptance Corporation, the Company and Nice Cars Acceptance AcquisitionCo, Inc. In exchange for all of the issued and outstanding shares of Nice Cars Capital Acceptance Corporation, Nice Cars Acceptance AcquisitionCo, Inc. (i) paid \$15,345,000; (ii) issued 5,568,750 shares of the Company's common stock; and (iii) issued a purchase note from the Company and its subsidiaries in the principal amount of \$6,930,000 payable in one year, or earlier as the Company obtains supplemental financing for its inventory of cars, derives higher advance rates from the Lenders or closes a securitized public offering of receivables. The Company utilized funds from the Loan Agreement, to pay the cash portion of the purchase price for Nice Cars Capital Acceptance Corporation.

The Company, as part of the purchase price consideration for the acquired companies, has also **issued a note to the Nice Cars Shareholders in respect of the assumption of tax obligations for Nice Cars, Inc.** and Nice Cars Capital Acceptance Corporation in respect of fiscal years 2005 and 2006 through October 4, 2006, which obligations have not yet been definitively determined but are not expected to exceed, in the aggregate with respect to both entities, **approximately \$1.6 million, plus gross-up amounts to cover the additional taxes levied on the Nice Cars Shareholders in respect of such tax payments on their behalf.** The tax reimbursement note will be paid as and when such tax obligations are calculated, due and payable by the NC Shareholders. In addition, the Company has issued a note to the Nice Cars Shareholders payable within 30 days after closing to reimburse them for loans made to Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation in the aggregate amount of approximately \$625,000. In connection with the closing of the acquisition of Nice Cars, Inc. and Nice Capital Acceptance Corporation, in addition to payments made to the Lenders described above, the Company made payments to third parties on behalf of the Nice Cars Shareholders in the amount of \$250,000 and issued 62,500 shares of the Company's common stock which was deemed to be within the total of \$25 million and 6.25 million shares of Company common stock paid as consideration for the acquisition. In connection with the closing of the acquisitions, the Company paid down in full and closed out the prior credit facilities utilized by the Nice Cars, Inc. and Nice Capital Acceptance Corporation.



The Nice Cars Shareholders have been granted limited piggy-back registration rights in connection with MNCS shares issued to them in consideration for the acquisition of Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation.

The Nice Cars Shareholders do not have demand registration rights. In order to provide continuity with respect to retail marketing and branding, Nice Cars Operations AcquisitionCo, Inc. has registered to do business in the States of Georgia and Tennessee as "Nice Cars, Inc." and Nice Cars Acceptance AcquisitionCo, Inc. expects to register to do business in the States of Georgia and Tennessee as "Nice Cars Capital Acceptance Corporation."

The Company proceeded to **open a new lot in Marietta, Georgia on August 26, 2006** for the Nice Cars, Inc. subsidiary of Manchester, which **expanded the total lots of Nice Cars, Inc. from five to six lots**. The Marietta lot sold 190 cars from the opening through September and that lot alone has sold more than 200 cars through October 15. The total number of cars sold company wide in October was 393 and the total number of cars sold company wide for 2006 through October 15 is 5,970.

On Oct. 19, 2006 Manchester, Inc. announced that its **corporate and securities counsel in New York** is in the process of **preparing an application for the company's stock** to be **listed and traded** on the **American Stock Exchange (AMEX)**. The Company expects the application to be submitted shortly.

Towards this end, Manchester, Inc. appointed the public accounting firm of **Rodefer Moss & Co, PLLC as its new independent auditor effective October 20**. Rodefer Moss is a regional accounting and consulting firm which Operates from offices in Knoxville, Nashville, Greeneville and the Tri-Cities Of Tennessee. Rodefer Moss is a registered member of the Public Company Accounting Oversight Board. They are also a member of the AICPA Center for Public Company Auditing Firms. Rodefer Moss serves many of the Strongest private companies, governmental units and non-profit organizations in Middle and East Tennessee, Western North Carolina, and contiguous states. Rodefer Moss also serves several large national and international companies, including other public companies. Rodefer Moss had previously undertaken and completed the three year combined audit of Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation in connection with the October 4, 2006 acquisition of These companies by Manchester Inc. The financial statements of the Nice Cars companies audited by Rodefer Moss were included as exhibits to the Company's disclosure statement filed on Form 8-K with the U.S. Securities & Exchange Commission on October 11, 2006.

Manchester, Inc. announced on November 16, that the Company has signed a binding term sheet to **acquire all of the outstanding stock of JC Wink Inc., doing business as "Americars," in an all cash transaction**. The binding term sheet provides for a definitive agreement to be executed and the closing to occur within thirty days, pending completion of due diligence. This announcement bodes well for the company's goal towards closing its second major acquisition in as many months.



Americars is one of 5 strategic dealerships Manchester has been negotiating to acquire as it **continues to build** its "Buy-Here/Pay-Here" used car businesses in the Central Texas market, from Georgetown in the North to San Antonio in the South. Earlier this year, the Company announced the acquisition of Nice Cars, Inc., a privately held Buy-Here/Pay-Here auto dealership as well as its affiliate Nice Cars Capital Acceptance Corporation, a credit acceptance company. Manchester Inc. **expects to execute binding term sheets with the shareholders of the remaining four companies shortly** and proceed with due diligence immediately thereafter with the objective of closing within thirty days of execution. The combined five dealerships would add a capacity to sell an additional 1,500 vehicles per month **that could translate into more than \$200 million in additional annual sales for Manchester**.

See Appendix A-I for Analyst Certification and Important Disclosures.

South Texas banker and former Hondo, Texas new car dealer (Chevy Buick Oldsmobile Pontiac) John C. "Jackie" Winkler owns Americars. Americars was organized in 1998 and currently operates one large Buy-Here/Pay-Here outlet and a separate service center in San Antonio, Texas. A second location is presently being remodeled with an anticipated opening in mid-December 2006. These locations, together with a third location under option, are expected to provide substantial company growth potential throughout the entire community.

In addition to these five dealerships, Manchester is presently completing negotiations for additional Buy-Here/Pay-Here dealerships throughout the country and expects to announce several binding term sheets before the end of 2006.



FINANCIAL STATEMENTS

The company filed Form 10-QSB with comprehensive financial information and operational discussion with the SEC with regards to financial performance and developments for the third quarter of FY2006 (Q3 FY2006) on October 23, 2006. Manchester Inc. has its fiscal year-end on November 30. The Company filed a **Form 8-K on October 11, 2006 with the U.S. Securities and Exchange Commission, which contained detailed information and disclosures with respect to the financing Commitment and the acquisition of the Nice Cars companies**, including audited financial statements of the acquired companies and pro forma financial statements pertaining to the acquired companies.

Manchester did not earn any revenues during the three-month period ending August 31, 2006. It incurred net operating losses in the amount of \$585,317 for the quarter ended August 31, 2006, as compared to \$6,541 of net operating losses for the comparable period of the last fiscal year. The **increase in net losses in the amount of \$578,776** resulted primarily from **increases in compensation and benefits, professional fees and insurance expense**. The compensation and benefits were incurred as the professional management personnel the Company secured during the three months ended May 31, 2006 to prepare the Company for the planned acquisitions of the "Buy-Here, Pay-Here" automobile dealership business received compensation and benefits for a full three-month period. Professional fees were incurred primarily to support the increased business activity and public filings related to the development of the "Buy-Here, Pay-Here" automobile dealership business including due diligence expenses incurred by a third-party source for a senior secured revolving financing facility. Insurance expense increased due to the acquisition of an aggregate of \$30 million of directors' and officers' insurance from a group of insurers during Q3 FY2006.

Operating expenses were comprised of compensation and benefits of \$258,437, professional fees of \$167,655, insurance expenses of \$79,651, interest on notes payable of \$27,220, consulting fees of \$22,368, and total other expenses of \$30,011. At August 31, 2006, Manchester Inc. had total assets of \$877,876, consisting of deferred acquisition costs of \$292,444, prepaid expenses of \$338,578, a refundable deposit of \$175,011, cash of \$34,781, other current assets of \$25,170 and office equipment net of accumulated depreciation of \$11,892. At the same date, total liabilities were \$1,869,528 of which \$1,636,019 was notes payable.

Deferred acquisition costs consisted primarily of audit and legal fees paid in conjunction with the due diligence performed relative to potential acquisitions in the "Buy-Here, Pay-Here" automobile dealership business. Prepaid expenses is primarily related to the prepayment of insurance costs associated with the acquisition of an aggregate of \$30 million of directors' and officers' insurance from a group of insurers during the three-month period. The original amount of the refundable deposit was \$250,000.

See Appendix A-1 for Analyst Certification and Important Disclosures.

The Company paid this amount to Surge Capital for the purpose of assuring coverage of future fees, costs, expenses and disbursements expected to be incurred by Surge in connection with Surge's consideration of providing the Company with a senior secured revolving financing facility (Due Diligence Expenses).

Through the end of the third quarter, Surge had incurred a total of \$74,989 of Due Diligence Expenses which Surge withdrew from the Deposit as such expenses were incurred. Prior to the end of the third quarter, the Company had decided to pursue alternative sources of senior secured revolving credit facilities. As the Company determined that it was more likely than not that it would ultimately use one of these alternative sources of senior secured revolving financing the **Due Diligence Expenses incurred by Surge through the end of the third quarter were expensed in the quarter**. The Company plans to request Surge to return the balance of any unused amounts from the Deposit to the Company.

Noteworthy financial and per share statistics are listed in the table found on page 1 of this report.

Liquidity and Capital Resources

At August 31, 2006, the Company had cash of \$34,781. At August 31, 2006, the Company had total liabilities of \$1,869,528, of which \$1,636,019 were notes payable. The Company is currently negotiating third-party financing for purposes of both expanding its business and re-paying these liabilities. Given the \$300 million credit commitment received from **Palm Beach Multi-Strategy Fund L.P**, the Company has ample capital to its disposal to pursue its business plan for the foreseeable future.

RISK FACTORS /CONCERNS

The business model, and longer-term consistency of revenue and income potential, remain uncertain and is not fully proven. **Manchester recently changed its business to become an operator of Buy-Here/Pay-Here automobile dealerships. Therefore, its past performance cannot be relied upon as an indication of future results.** The Company has incurred a net loss of \$1,182,502 for the period from August 27, 2002 (inception) to August 31, 2006, and has not generated any revenues outside of its recent acquisition. Its latest financial statement filed contains a going concern assumption by its auditors. The ability of the Company to emerge from the development stage with respect to its planned principal business activity is **dependent upon its successful efforts to acquire additional dealerships, develop a market for its products, manage and conduct collections under its agreements and implementing each needed securitization process effectively.**

Manchester Inc. cannot provide assurance that management will be successful in negotiating further acquisitions as planned at favorable terms. MNCS is **substantially dependent on the expertise of its management team and directors**, the loss of which could materially adversely affect future anticipated results. The company is still considered to be a **development stage company** and has not generated surplus revenues. The Company may not be able to generate sufficient funds to operate its business, which, could harm results and force the Company to curtail or cease plans for pursuing its "Buy-Here, Pay-Here" automobile dealership business and for expansion of companies already under its umbrella. There can be **no assurance the company will be successful in its effort to secure additional third party financing, if needed** to support operations that will necessitate achievement of near and medium term goals.

Its acquisition and internal growth strategy requires substantial capital investment. Capital will be needed not only for the acquisition of additional companies (which is available under the credit commitment, but also for the effective integration, operation and expansion of these businesses. Capital is also necessary for the expansion of existing operations. Future capital requirements will depend on a number of factors, including MNCS's ability to grow its revenues and manage its business. Its growth will depend upon its ability to raise additional capital, possibly through the issuance of long-term or short-term indebtedness or the issuance of its equity securities in private or public transactions.

The Company is **exposed to market risk on its financial instruments from changes in interest rates**. In particular, the Company has **exposure to changes in the prime rate**. The Company does not use financial instruments for trading purposes or to manage interest rate risk. The Company's earnings are determined by net interest income, which is the difference between the **income earned on interest-bearing contracts receivable assets and the interest paid on interest-bearing notes** payable. A change in market interest rates could have an adverse effect on the Company's profitability.

The Company's operations are subject to various federal, state and local laws, ordinances and regulations pertaining to the sale and financing of vehicles. Under various state laws, the Company's **dealerships must obtain a license in order to operate or relocate**. These laws also regulate advertising and sales practices. The Company's financing activities are subject to federal truth-in-lending and equal credit opportunity regulations as well as state and local motor vehicle finance laws, installment finance laws, usury laws and other installment sales laws.

See Appendix A-1 for Analyst Certification and Important Disclosures.

Among other things, these laws require that the Company limit or prescribe terms of the contracts it originates, require specified disclosures to customers, restrict collection practices, limit the Company's right to repossess and sell collateral, and prohibit discrimination against customers on the basis of certain characteristics including age, race, gender and marital status.

Many US states **impose limits on interest rates the Company can charge** on its loans. These limits are generally based on either (i) a specified margin above the federal primary credit rate, (ii) the age of the vehicle, or (iii) a fixed rate. Management believes the Company is in compliance in all material respects with all applicable federal, state and local laws, ordinances and regulations. However, the adoption of additional laws, changes in the interpretation of existing laws, or the Company's entrance into jurisdictions with more stringent regulatory requirements could have a material adverse effect on the Company's used vehicle sales and finance business. The Company's subsidiary, **Nice Cars, Inc., will be required to apply for new permits in the states of Georgia and Tennessee reflecting the new ownership of the business.** The failure to receive the necessary permits could completely impair the Company's ability to continue the operations of its business as presently conducted.

Manchester's business is concentrated in a particular geographic area of the United States. Adverse economic conditions in Georgia and Tennessee could adversely affect the delinquency, loan loss or repossession experience of its car financing business. As a consequence, its results of operations will depend substantially on local and regional economic conditions and consumer spending habits and preferences, as well as various other factors, such as tax rates and applicable state and local regulation. There can be no assurance that MNCS will be able to expand geographically or that any such expansion will adequately insulate the Company from the adverse effects of local or regional economic conditions.

There can be no assurance that the historical levels of delinquencies and losses experienced by Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation on its car loan portfolios will be indicative of the performance of future loan contracts or that such levels will continue in the future. Delinquencies and losses could increase significantly for various reasons, including changes in the federal income tax laws, changes in the local, regional or national economies as well as unforeseeable causes. **The bankruptcy regime currently in effect creates risks for the Company. A failure of its ability to collect moneys owed as a result of bankruptcy law could have a material adverse effect on its business.**

The Company is and will continue to be exposed to the risks of sub-prime sector lending. These types of loans may be made to applicants who (i) have not yet established a conventional credit history, (ii) do not qualify for conventional credit, or (iii) who have experienced certain adverse credit events but who meet certain other creditworthiness tests. Such **Sub-prime loans may experience higher rates of delinquencies, repossessions and losses, especially under adverse economic conditions**, as compared with loans originated under a traditional lending program. The Sub-prime market for credit consists of making loans which may not be made by traditional sources of credit, which in the automobile finance business is comprised of insured-deposit taking institutions such as banks, thrifts and credit unions, and finance companies which are "captives" (i.e., finance subsidiaries) of automobile manufacturers. A loan may be considered Sub-prime primarily for one, or both, of two reasons: borrower credit considerations and collateral considerations. It is also possible that the **Sub-prime automobile finance business is more susceptible to loss than other segments of the Sub-prime lending business generally**, such as Sub-prime mortgage lending, **due to the mobility and depreciation of the collateral.**

Sub-prime borrowers are likely to be relatively weak credits that may be unable/or unwilling to repay their loans. A borrower may be considered a Sub-prime credit due to limited income, tarnished credit history (e.g., prior bankruptcy, history of delinquent payments on other types of installment credit) or a lack of credit history (i.e., a relatively young individual who has not yet developed a "credit history profile"). Sub-prime loans may also have less valuable collateral. Collateral considerations in the Sub-prime automobile market primarily result from the financing of used vehicles. Although depreciation also affects new automobiles, the market value of an automobile which is several years old may be more difficult to ascertain than for a new vehicle since such value will depend on mileage and general condition, which may vary substantially for different vehicles of a similar model year. As a result of all of the foregoing factors, the performance of a Sub-prime portfolio may be more susceptible to performance deterioration than a prime portfolio, since the borrowers, being more marginal credits, are likely to be affected to a greater degree by economic downturns, and since the collateral, often consisting of older, used vehicles, may be more difficult to value.

In the event that MNCS must rely on repossession and disposition of vehicles to recover scheduled payments due on defaulted contracts and/or as to which the related obligor has affirmatively indicated an inability or unwillingness to make payment, the Company **may not realize the full amount due** on the loan contract (or may not realize the full amount on a timely basis). Other factors that may affect Manchester's ability to realize the full amount due on a car financing contract include whether amendments to certificates of title relating to the vehicles have been properly filed, whether financing statements to perfect the security interest in the vehicles had been properly filed, depreciation, obsolescence, damage or loss of any vehicle, and the application of Federal and state bankruptcy and insolvency laws. If any of the foregoing is defective to a material degree, Manchester's business could be adversely affected and investors may suffer loss of their investment in MNCS securities.

There are risks associated with security interests. These risks could cause losses that might adversely affect the Company's business. The perfection of the security interests in the collateral underlying the Company's car loan contracts and the enforcement of rights to realize on the vehicles as collateral are subject to a number of federal and state laws, including the Uniform Commercial Code as in effect in various states. The Company believes that it will be able to establish a perfected security interest in favor of each vehicle included in its portfolio of car loans.

However, statutory liens for repairs or unpaid taxes and other liens arising by operation of law may have priority even over prior perfected security interests in the name of the vehicles. The collateral car underlying the specific car loan may be at risk of partial or total loss. Such losses could in the aggregate adversely affect its business.

The Company believes that it will be able to attract competent employees, but no assurance can be given that it will be successful in this regard. If MNCS is unable to engage and retain the necessary personnel, its business would be materially and adversely affected.

Manchester has a high level of indebtedness (approximately \$54 million of principal indebtedness) which will require it to divert much of its cash flow to service these debt costs. Any inability to service payments due on its indebtedness would adversely affect any investment in the Company. The Company has initially drawn down approximately \$54 million and may request additional draws on the basis of eligible collateralized receivables under the Loan Agreement. The Company must pay very high rates of interest on the Loan. If the Interest applicable to the Company's Loan equals or exceeds the rate of interest that the Company may legally charge its own customers, the Company may incur losses.

The Company carries a significant amount of vehicle inventory to service customer requirements in a timely manner. If MNCS is unable to sell this inventory over a commercially reasonable time, it may be required to take inventory markdowns in the future, which could reduce net sales and gross margins. In addition, it is critical to that Manchester accurately predicts trends in consumer demand, including seasonal fluctuations, in the future and do not overstock unpopular models or fail to sufficiently stock popular models. Both adverse scenarios could harm its operating results.

The Company's areas of business may be affected from time to time by such matters as changes in general economic conditions, changes in laws and regulations, taxes, tax laws, prices and costs, and other factors of a general nature which may have an adverse effect on the business of Manchester Inc. At present, only a limited public market exists for the common stock on the over-the-counter bulletin board maintained by the National Association of Securities Dealers (NASD) and there is no assurance that a more active trading market will develop, or, if developed, that it will be sustained.

The Company's automobile sales and finance business is seasonal in nature. Months of November through January are historically the slowest period for car and truck sales. Many of the Company's operating expenses such as administrative Personnel, rent and insurance are fixed and cannot be reduced during periods of decreased sales. Conversely, February through April is historically the busiest time for car and truck sales as many of the Company's customers use income tax refunds as a down payment on the purchase of a vehicle. Further, the Company experiences seasonal fluctuations in its finance receivable credit losses as a result of likewise fluctuations in sales activity.

If the Company is unable to compete with its competitors, its business, financial condition, results of operations, cash flows and prospects could be materially adversely affected. Manchester operates in a highly competitive environment. Its competition includes publicly and privately owned dealerships, some of which operate large groups, and any of which may sell the same or similar makes of new and used vehicles in its markets at competitive prices. Other competitors include franchised automotive dealerships, private market buyers and sellers of used vehicles, used vehicle dealers, and publicly and privately-owned finance companies, including those of vehicle manufacturers, and, on-line automotive retailers and lead-referral companies. Other dealers or franchises may start a new dealership near one of its locations, or an existing dealer may move its dealership to a location, which would compete directly with that of Manchester's subsidiary dealerships. These and other competitive pressures could materially adversely affect its business, financial condition, results of operations, cash flows and prospects. **There are low barriers to the entry of market competitors. New competitors may adversely affect the results of the Company's operations by attracting its potential customers.**

Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The **stock is thinly traded at prices around \$3.50 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity.** The reverse is true if one or more large investors decide to acquire a block of MNCS shares that would result in demand outstripping supply and result in an upward squeeze in the price given the scant liquidity and daily trading volume. **We caution that historical volume activity on MNCS will rank it as a relatively illiquid security** and we are unable to determine the direction of trading volumes in the coming months with any degree of certainty.

Major dilution of common stock can occur if the Company issues large blocks of common stock or convertible securities are converted/warrants exercised into common stock, that can negatively impact on the value of the shares either theoretically, or if sold outright in the open market.

NASD and SEC Regulations covering rules on Penny Stocks apply for MNCS, subjecting NASD broker-dealers to additional sales practice and disclosure requirements.

Further elaboration on these above-mentioned and other risk factors are contained in the company's SEC filings in Form(s) 10-KSB or 10-QSB and readers are encouraged to consult these documents.

MANAGEMENT TEAM & BOARD OF DIRECTORS

Directors and senior management are amply motivated through a stock option plan and share ownership in both companies that provides an incentive to partake in result-outcome work. The Lyle family is very much involved in the day-to-day management of new combined concern. Mr. Lyle and his 's spouse, Victoria E. Lyle, still serve as an officers and employees of the Company's operating subsidiaries, Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation. Mr. and Mrs. Lyle's three children serve as Corporate Credit and Collections Manager, General Manager and Human Resources Manager, respectively, for the two companies. The following is a short summary of the background of senior management:

Richard Gaines – President, CEO of Manchester, Director & Corporate Secretary

Mr. Richard Gaines serves as Director and Corporate Secretary of Manchester, Inc. Mr. Gaines has been engaged in the private practice of law under the name of Richard D. Gaines & Associates, P.C. since 1986. From 1973 to 1985, he was an Associate and Partner (1975 to 1985) in the New York office of Fenwick & West. He received his B.A. from the University of Michigan in 1966 and his J.D. from Harvard Law School in 1969. He has experience and expertise in contract litigation of all types, stock holder appraisal action, securities litigation under Rule 10b5; employee terminations, dealer terminations, discrimination litigation of various types, unfair competition, sex and race discrimination cases and arbitration proceedings involving some of the above types of claims. In addition, he has experience and expertise in mergers and acquisitions of public and private companies, private placements of debt and equity, general and limited partnership agreements, leveraged buyouts, divestitures of facilities and divisions, financings, trademark licensing and the licensing of other intellectual property; advising with respect to, and structuring, distributor networks for manufacturing and wholesale companies; advising on all phases of corporate activities, including employment agreements, personnel related problems, pension and profit sharing plans.

James M. Worosz – Senior Vice President of Finance

Mr. James M. Worosz has served as Senior Vice President of Finance of the Company since April of 2006. Prior to joining the Company, Mr. Worosz was Vice President of Finance for J.D. Byrider Systems, Inc. (J.D. Byrider) since 1999. In this position his duties included pricing the discounts by which J.D. Byrider's finance company, CarNow Acceptance Company (CNAC), purchased receivables from J.D. Byrider's sales company, setting CNAC's loan loss reserve, setting deal structure parameters for vehicle sales, determining the makes and models of vehicles to retail to customers, pricing J.D. Byrider's sales company's extended service contract, budgeting J.D. Byrider's sales company's monthly policy for service repairs, setting incentive compensation plans for underwriters, collection managers, and collectors, and projecting future cash flow for purposes of annual budgeting and scheduling new store expansion. For the period from November of 2000 until February of 2003, Mr. Worosz was also in charge of CNAC, and responsible for all aspects of CNAC's profitability and the performance of its \$100 million portfolio of sub-prime automobile receivables.

Raymond Lyle – President & CEO of Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation.

Mr. Raymond Lyle is a key employee and serves in the capacity of President and CEO of the Company's operating subsidiaries, Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation. Mr. Lyle graduated from the University of Tennessee in 1970 with a BS in Accounting. He worked as an accountant before starting Nice Cars, Inc. in his current capacities in 1998.

Victoria E. Lyle – Treasurer, Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation.

Ms. Victoria E. Lyle is a key employee and serves in the capacity of Treasurer of the Company's operating subsidiaries, Nice Cars, Inc. and Nice Cars Capital Acceptance Corporation. Ms. Lyle worked in banking before joining Nice Cars, Inc. in her current capacity in 1998.

INVESTMENT THESIS AND RECOMMENDATION

Manchester Inc. is a development stage company that seeks to create the preeminent company in the "Buy-Here/Pay Here" auto business; selling and financing used vehicles (Sport and/or Luxury Cars, SUVs, Trucks and Vans) to credit impaired borrowers. Our analysis suggests that MNCS Inc. is an interesting speculative play among micro-cap companies offering exposure to the investor on the "Buy-Here/Pay Here" auto dealership segment of the market that utilizes a rewarding financing model, that holds potential to generate lucrative future revenue streams. The "Buy-Here Pay-Here" auto business is a \$50 billion business that sells pre-owned cars to sub-prime buyers at high margins and high rates.

The company intends to sell acquired and newly generated receivable portfolios through a securitization process. By identifying target companies, utilizing committed capital, and acquiring market leaders as wholly-owned subsidiaries, Manchester can make huge strides in the industry. Towards this end the Company has already completed its first acquisition in the Nice Cars transaction on October 4, 2006.

See Appendix A-I for Analyst Certification and Important Disclosures.

"Nice Cars" has a recognized name with buyer awareness and its lots retain a high level of respect in their respective communities based on a history of top-level customer service, dependable vehicles, and a caring management and finance department. This "Word of Mouth" reputation has provided repeat business to each of the lots and a community-wide admiration for "fair dealing" and "reliable" business practices. The MNCS car lots are very successful and well traveled by prospective buyers. Two of the main attractions are affordability and the in-house financing available that provides the consumer with an alternative to obtaining loans from banks and finance companies. The MNCS car lots also carry an inventory that can range up to 100 vehicles on any particular lot and the sophisticated ability to cross-reference customers need by different lots being able to directly and immediately communicate with one another. A second acquisition is in the offing following the binding agreement announced on November 16, to acquire Americars.

The target customers are good people with bad credit and those in the growing non-bank sector (those who can not even get a bank to open an account for them and must deal in cash). If the economy dips, this population only increases. It can be wives of deadbeats whose credit was destroyed by a husband and they are trying to rebuild on their own – it is difficult for anyone to rebuild without a vehicle.

We are positive regarding the company's business model and probabilities of creating shareholder value due to several factors that comprise its model such as: (1) no depreciation on vehicles, (2) the leverage buyout nature of acquired auto dealerships, (3) income tax considerations and the (4) other value added considerations to auto dealership owners that operate in the "Buy-Here/Pay Here" auto business.

Unlike new cars, these cars generally do not depreciate during any time of a repo. For example, if a Toyota Camry with 50,000 miles sells for \$12,000, then if it is repo-ed in six months (after 6 months of payments) and now has 55,000 miles it will still be sold for \$12,000. In this way, more money can be made on repo vehicles than those that go to term. The credit facility provides for leverage of 80% of receivables in the case of acquisitions and 60% in the case of new receivables generated after acquisition. This allows for more cash to be generated to pay off a target company's existing lender and generate additional cash to be used as the cash component in paying the Seller. The acquired receivables are subsequently sold and the debt is paid off but Manchester Inc. still owns the acquired company with no debt and that company still generates new receivables every day that can be securitized. Since there will only be 60% debt against those receivables, the profit is tremendous when they are sold.

The terms of the debt are high but not for leverage buyout money that needs to move fast. The continuous sale of receivables to pay off debt limits the significance of high priced debt. Also, there are 100% of receivables paying 20% or more paying down a debt that is between 60% and 80% of the face amount at 17%. Furthermore fees are only one time, there is no prepayment penalty, and it is revolving so each time the loan is paid off it can be borrowed again and again and again with no fees to make further acquisitions, Consequently, the \$300 million credit can be used to acquire several billion dollars in receivables and the underlying companies. It is very conceivable to grow in one year to a size where new receivables are being generated at a rate of more than \$1 billion per year at 60% leverage and being sold at face for a gain of \$400 million.

The receivables are installment contracts and the revenues are only recognized over the term of the contract and not in one year. The expenses associated with those contracts such as commission, lot expenses, and salaries are all current expenses, so as long as these companies continue to grow most if not all income taxes get deferred. The money borrowed against receivables is a loan and not income. At the time of sale a taxable event will take place but there is tremendous cash generated to pay the associated taxes.

Both operating and financial risk involved in investing in a developing auto retailer and financing company are typically high and should be considered by investors. In this case the financial and commercial risks associated with most of these companies include, risks associated with allowance for credit losses related to its finance receivables and adverse interest rate moves or failure to execute its securitization process. There is also a risk that the company may struggle to find suitable target companies to acquire in its industry or that it may overpay for such acquisitions, amongst many others discussed in the section on Risk factors.

The Buy Here/Pay Here segment of the industry does face some hurdles. For instance, the dealers can't borrow money fast enough, which typically comes from insurance companies or bank loans. Auto dealers are forced to attain financing by making themselves personally responsible while the banks are restricted to the lendable amounts by their regulators. Readers should understand that there can be no assurance that the company will be able to fast-track its path towards making inroads into the target market and growing its receivables book, and successfully completing its securitizations that will flow through directly to the top and or bottom line to build a consistent longer term profitable track record that will enrich shareholder value. The success, timing and effective integration of future acquisitions under its roll-out acquisition strategy is one of the biggest unknowns and does and will play a material role in the financial performance of MNCS in the short, medium and long term.

Having said that, MNCS has seen a high level of interest from several auto dealership owners that are interested in considering a corporate action/agreement to join the vision to become part of a future preeminent company in the "Buy-Here/Pay Here" auto business. Under the Manchester umbrella owners can still manage their dealerships and share in future growth via direct stock ownership, whilst having access to sufficient financing through Manchester, a major plus since capital access has generally been the dominant factor that has historically restricted growth of "Buy-Here/Pay Here" auto dealers.

We therefore only recommend investors that have a high tolerance for risk that are able and willing to forfeit either most or all of their capital in search for extraordinary returns, to consider investing in the shares. Also, in our view investors willing to commit capital to MNCS should do so with absolute minimum 2 year investment horizon, but preferably longer, to allow ample opportunity for growth to emerge until broader price discovery can materialize within the investment community that will allow the value behind this promising roll out acquisition strategy that will lead to a larger receivables book, which can subsequently be securitized and managed profitably, be unlocked and reflected in the stock price. Medium term we expect MNCS stock to advance from its present price level due to technical and fundamental reasons. We acknowledge that our 12-month price target of \$6.50 appears optimistic at first glance, but we believe that the recent slide has been as a result of short selling activity that has driven the price down to artificially low levels and that the stock will be propelled higher if our assumption is correct that FY2007 will produce a major ramp in revenues as a result of a successful acquisitions trail.

MNCS announced plans to make more acquisitions based upon the proven model that has been applied in the Nice Cars purchase. Recent news and SEC filings from Manchester provide details about the credit commitment. Manchester used \$75 million of their \$300 million credit commitment, leaving another \$225 million to be leveraged. This happens to equate to three more "Nice Car Equivalent" purchases at the rate of \$75 million each. We have made certain assumptions regarding the timing, extent and nature of further planned acquisitions and have arrived at revenue and net income forecasts for FY2006 and FY2007. These numbers together with net operating margins (%) and earnings per share (EPS) estimates are provided on the table found on the following page (SEE TABLE below).

If the increased revenues announced for September along with the first six months numbers filed in the Oct 11 8K, Nice Cars 2006 full year auto sales should come at over \$100 million, so three more similar companies totals more than \$400 million in auto sales per year. Audited earnings for 2005 were about 8.4% of revenues, so using that ratio as a guide and the most recent data of recognized sales for FY2006 year to date we believe FY2006 revenues will be close to \$110 million and earnings should come in AT LEAST \$74 million from Nice Cars alone, which equates to FY2006 EPS of 22.7c on shares issued and outstanding total of about 33 million.

On November 17, 2006 the Company announced it intends to purchase Americars (its 2nd acquisition target), which is not one of 5 strategic dealerships Manchester has been negotiating to acquire as it continues to build its "Buy-Here/Pay-Here" used car businesses in the Central Texas market, from Georgetown in the North to San Antonio in the South. Earlier this year, the Company announced the acquisition of Nice Cars, Inc., a privately held Buy-Here/Pay-Here auto dealership as well as its affiliate Nice Cars Capital Acceptance Corporation, a credit acceptance company. Manchester Inc. expects to execute binding term sheets with the shareholders of the remaining four companies shortly and proceed with due diligence immediately thereafter with the objective of closing within thirty days of execution. The combined five dealerships would add a capacity to sell an additional 1,500 vehicles per month that could translate into more than \$200 million in additional annual sales for Manchester. For FY2007 revenues we assumed 10% growth on Nice Cars sales in the coming fiscal year, plus successful closing of these earmarked acquisitions that could translate into FY2007 revenues of \$350 million for MNCS. Allowing for 12 million shares issued for further acquisitions that will dilute current shareholders interest somewhat and making certain cost assumptions we estimate FY2007 EPS of just shy of 50c.

	EPS Forecast	Revenue Estimate (\$million)	Net Income Estimate (\$million)	Net Oper Margin %	Forward PE multiple	EPS Growth	Forward Price	Discount Rate (k)	Present Value
FY 2006	0.227	110.000	7.443	6.8%	11.0	NA	2.50	6.8%	2.417
FY 2007	0.498	350.000	22.313	6.4%	14.5	119%	7.22	6.8%	6.549
TOTAL									8.9658
Assumptions			Beta	1.50	R_m	6.0%			
$k=R_f+(R_m-R_f)*Beta$			R_f	4.50%	k	6.8%			

Using these numbers in conjunction with a forward PE methodology, where we have applied individual PE multiples for each of the respective years shown below, and thereafter discounting at the required rate of return (k) which is a function of the risk-free rate and market rate of return, together with the stock's beta measure, to obtain present values for the stock price, and ultimately arrive at a valuation framework for Manchester Inc. (MNCS). We have applied forward PE multiples that are closely related to that of listed peer companies such as AutoNation Inc. (AN), CarMax Inc. (KMX) and America's Car-Mart Inc. (CRMT).

Given these calculations and our bottom up analysis, which is also qualitative in nature, we set a 12-month target price for the security of \$9.00. Our 12-month target price implies a market capitalization of \$405 million (45 million shares), representing a price to sales multiple of 1.15x our FY2007 revenue projection of \$350 million. This price to sales multiple is slightly ahead of the sector average, but not demanding given the life cycle and growth trajectory of the Company. We believe that this revenue projections are attainable as it assumes MNCS can complete these 5 acquisitions beyond Nice Cars that can add up to \$200 in annual revenues and excludes other binding agreements that can following in the coming months that can lead to FY2007 revenues exceeding our present estimate. All factors weighed, we anticipate a stake in MNCS has compelling upside potential in the coming 12-24 months as we believe that the recent slide in the price of the stock is related to short selling activity possibly following the recent profit warning by listed peer company CRMT, is not reflective of the underlying fundamentals. Readers should be note that our price target and valuation framework is more conservative than some other reports on this Company and that actual financial performance may exceed our estimates. In recent news, First Cash Financial Services (NASDAQ NM:FCFS), which traditionally operates in the Credit Services industry has laid out \$33 million to purchase Auto Master, based in Northwest Arkansas and sells and finances used cars using the "Buy Here/Pay Here" method.

(<http://yahoo.brand.edgar-online.com/fetchFilingFrameset.aspx?dcn=0000926236-06-000112&Type=HTML>)

When looking at this FCFS news, it can be noted that the stock price shot up nearly 25% on the announcement, yet MNCS stock plummeted over 60% on its eerily similar news as a result of a short sale activity that was perhaps based upon CRMT results that missed expectations. America's Car-Mart tumbled after it announced that it expects a loss in the range of 16 cents to 20 cents a share for the quarter ended Oct. 31. The Bentonville, Ark.-based company expects a charge of 28 cents a share due to an increase in the allowance for credit losses related to its finance receivables. Without the charge, the company would have a profit of between 8 cents and 12 cents a share. Still, analysts polled by Thomson Financial were expecting earnings of 31 cents a share. Shares were down \$2.96, or 20.6%, to \$11.39 in a single session as a result of this revised guidance to the Street.

We HIGHLIGHT to the reader that our bullish view and forecasts for MNCS is made under the assumption that the company is able meet our revenue and earnings estimates for FY2006 and FY2007 outlined above. It is also made assuming MNCS can close all of its intended acquisitions it has announced to date that is in the near term pipeline (6 acquisitions by end of FY2007 including that of Nice Cars). Moreover, we believe that the present market for MNCS shares is far from efficient, does not fully reflect the leverage possible from a ramp in revenues and the corresponding financing income it will receive from its securitization strategy.

Our forecast is made under the assumption that the company can attain or better our net operating margins and EPS targets as specified for each of the years cited above. In addition to these five new dealerships on the MNCS acquisition list, Manchester is presently completing negotiations for additional Buy-Here/Pay-Here dealerships throughout the country and expects to announce several binding term sheets before the end of 2006. We regard the present market capitalization as modest in light of the vast potential of a larger receivables book that can be sold and the pending acquisitions that are presently being negotiated. Under these assumptions we initiate coverage on MNCS with a SPECULATIVE BUY rating.

We anticipate a lot of room for growth off such a low base. In our opinion there is no reason why it shouldn't continue to observe an increase in the stock price to reflect financial progress once sales traction is evident in coming quarters, especially now that Manchester Inc. is in progress of completing its second acquisition of Americars. So this is a very exciting time in the history of this company and its shareholders.

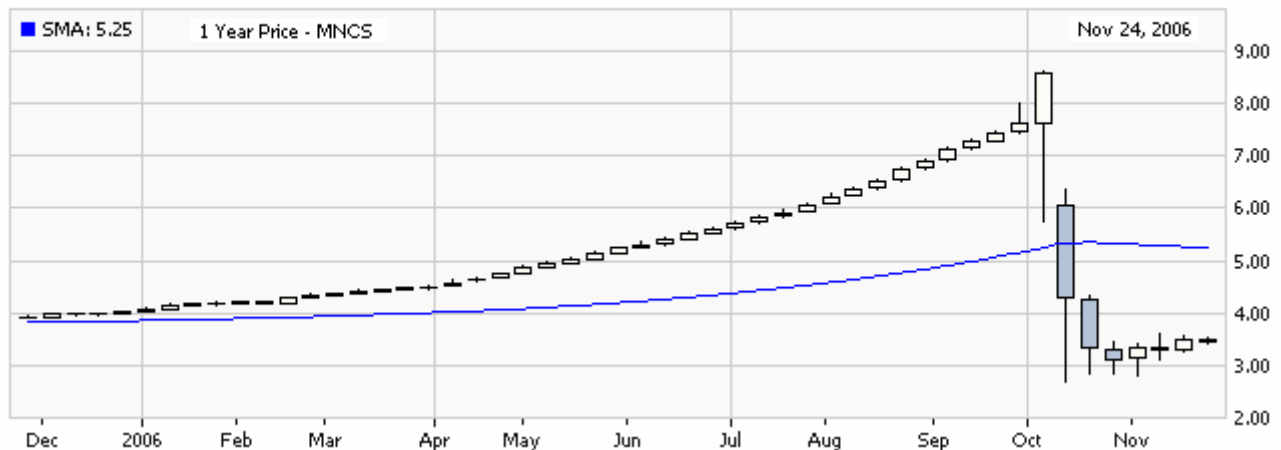
Risk to our recommendation include amongst other: failure of acquired dealerships to meet their sales quotas or operate within its planned budget, unforeseen difficulties or delays in executing securitizations or selling receivables, slow market penetration in new areas of operation and lower revenues and profits, leading to a contraction in forward PE multiple assumptions that dampens the valuation, difficulty in maintaining sufficient inventories of cars at favorable prices that may lead to inventory write-downs, new fees/costs for permits etc. and/or any adverse regulatory changes in the markets it conducts operations. New competition in its market by other larger better capitalized rivals, accounting changes that has an adverse impact on the market's perception of shareholder value, any inability to obtain necessary financing from capital markets when needed, to continue its business projects and/or major share dilution that can occur, if large quantities of shares are issued to extinguish debt, paid for services or if warrants are exercised that dilutes common shareholder interest, are some additional factors that will counteract price appreciation potential or cause shares to decline in value. We would caution that given the size of the company (nano-cap) and risks involved, overall we advise positions be limited below 5% of the client's total portfolio size.

See Appendix A-I for Analyst Certification and Important Disclosures.

Manchester Inc.

MNCS

Last: 3.45



ANALYST CERTIFICATIONS

APPENDIX A-1

The research analyst, who upon request wrote this report, certifies that the views expressed in this research report, accurately reflects his personal view about the subject company. The analyst also certifies that he does not own or have any beneficial interest in shares of the covered company, also that no part of his compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report.

Based on the facts that were provided, the industry trends present and sources of information used to produce this report, it is my best opinion and reflection of what the company's rating and share appreciation potential could be once research coverage is widely adopted. Investors are urged to consider this report as only a single factor in making their investment decision. Information, opinions or recommendations contained in this report or research note are submitted solely for advisory and information purposes and we also do not accept any obligation to provide updates to this report in future.

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