AMERICAN COMMERCE SOLUTIONS Inc
Form 10QSB
October 13, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended August 31, 2006

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**
For the transition period from to

Commission file number: 33-98682

American Commerce Solutions, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware	**05-0460102**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

1400 Chamber Dr., Bartow, Florida 33830

(Address of principal executive offices)

(863) 533-0326

(Issuer s telephone number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x YES ¨ NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ YES x NO.

There were 237,640,646 shares of the Registrant s $.002 par value common stock outstanding as of August 31, 2006

Transitional Small Business Disclosure Format (Check one): Yes ¨ No x

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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Financial Statements

American Commerce Solutions, Inc. and Subsidiaries

As of August 31, 2006 and for the

Three and Six Months Ended August 31, 2006 and 2005

(unaudited)

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American Commerce Solutions, Inc. and Subsidiaries

Consolidated Financial Statements

As of August 31, 2006 and for the

Three and Six Months Ended August 31, 2006 and 2005

(unaudited)

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American Commerce Solutions, Inc. and Subsidiaries

Consolidated Balance Sheet

August 31, 2006

(unaudited)

Assets		
Current assets:		
Cash	$	40,655
Accounts receivable, net of allowance of $4,726		28,701
Accounts receivable, factored		35,971
Inventory		186,996
Other receivables		91,844
Other current assets		71,876
Total current assets		456,043
Property and equipment, net of depreciation of $2,055,563		5,045,366
Other assets:		
Intangible assets, net of accumulated amortization		80,222
Total other assets		80,222
	$	5,581,631
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of notes payable	$	616,051
Current portion of notes payable, related parties		201,096
Accounts payable		326,712
Accrued expenses		148,731
Accrued interest		139,201
Due to stockholders		686,510
Deferred revenue		99,550
Total current liabilities		2,217,851
Notes payable, net of current portion		746,525
Stockholders equity:		
Preferred stock, total authorized 5,000,000 shares:		
Series A; cumulative and convertible; $.001 par value; 600 shares authorized; 102 shares issued and outstanding; liquidating preference $376,125		
Series B; cumulative and convertible; $.001 par value; 3,950 shares authorized; 3,944 shares issued and outstanding; liquidating preference $3,944,617		3
Common stock; $.002 par value; 350,000,000 shares authorized; 238,162,646 shares issued; 237,640,646 shares outstanding		476,326
Additional paid-in capital		18,940,217
Stock subscription receivable		(10,000)
Treasury stock, at cost		(265,526)
Accumulated deficit		(16,463,886)
Loan costs from issuance of common stock		(59,879)

Total stockholders equity		2,617,255
	$	5,581,631

The accompanying notes are an integral part of the consolidated financial statements.

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American Commerce Solutions, Inc. and Subsidiaries

Consolidated Statements of Operations

(unaudited)

	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2006	2005	2006	2005
Net sales	$ 544,365	$ 665,450	$ 1,193,711	$ 1,320,349
Cost of goods sold	338,900	433,656	769,411	892,877
Gross profit	205,465	231,794	424,300	427,472
Selling, general and administrative expenses	536,337	625,137	1,064,753	1,168,708
(Loss) from operations	(330,872)	(393,343)	(640,453)	(741,236)
Other income (expense)	4,421	280,448	14,515	296,643
Gain on forgiveness of debt		20,020		98,310
Interest expense	(40,622)	(43,914)	(73,647)	(80,641)
Total other income (expense)	(36,201)	256,544	(59,132)	314,312
Net loss	$ (367,073)	$ (136,789)	$ (699,585)	$ (426,924)
Basic and Diluted net loss per common share	$ (.00)	$ (.00)	$ (.00)	$ (.00)
Basic and Diluted weighted average number of common shares outstanding	237,011,597	222,737,372	236,475,715	212,811,259

The accompanying notes are an integral part of the consolidated financial statements

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American Commerce Solutions, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended August 31, 2006	2005
Operating activities:		
Net loss	$ (699,585)	$ (426,924)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	214,777	219,199
Stock issued for services	70,507	27,000
Options issued to consultants and employees		21,000
Gain on sale of equipment	(4,500)	
Gain on forgiveness of debt		(98,310)
Gain on write down of debt		(15,000)
(Decrease) increase in allowance for doubtful accounts	(458)	12,621
(Increase) decrease in:		
Accounts receivables	1,893	9,778
Inventory	(38,462)	(2,704)
Other receivables and other assets	27,348	226,835
Increase (decrease) in:		
Accounts payable and accrued expenses	42,834	(106,773)
Deferred income	57,992	1,628
Net cash used by operating activities	(327,654)	(131,650)
Investing activities:		
Decrease in other receivables	18,605	
Payments on notes receivable	239,016	
Proceeds from sale of equipment	4,500	
Acquisition of property and equipment	(13,301)	(40,937)
Net cash provided (used) by investing activities	248,820	(40,937)
Financing activities:		
Increase in checks drawn in excess of bank balance		15,282
Increase (decrease) in due from factor	6,441	(21,332)
Proceeds from notes payable and long-term debt	61,362	57,741
Principal payments on notes payable and capital leases	(66,146)	(106,394)
Increase in advances from stockholders	99,700	165,400
Exercise of stock options and warrants		36,287
Net cash provided by financing activities	101,357	146,984
Net increase (decrease) in cash	22,523	(25,603)
Cash, beginning of period	18,132	63,506
Cash, end of period	$ 40,655	$ 37,903
Supplemental disclosures of cash flow information and noncash investing and financing activities:		
Cash paid during the period for interest	$ 16,712	$ 158,860

During the six months ended August 31, 2006, the Company issued 9,650,136 shares of common stock to a related party and related company, valued at $119,758 in exchange for guarantees of a note payable. As of August 31, 2006, $59,882 of these guaranty fees have been amortized.

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During the six months ended August 31, 2006, the Company wrote off $68,236 of fully depreciated property and equipment.

During the six months ended August 31, 2006 and 2005, the Company increased notes payable by $12,418 and $12,577, respectively for an accrual of interest.

During the six months ended August 31, 2006, the Company issued 340,095 shares of common stock to a related party for accrued expenses valued at $10,203.

During the six months ended August 31, 2005, the Company assigned $252,756 of debt and related accrued interest to a related party in exchange for 12,637,772 shares of common stock. Also, the Company converted $330,148 of debt and related accrued interest to a related party to 16,507,417 shares of common stock.

During the six months ended August 31, 2005, the Company issued 5,000,000 shares of common stock in exchange for a consulting agreement valued at $100,000. The Company issued a note receivable of $34,000 upon the exercise of 2,000,000 options by a consultant.

The accompanying notes are an integral part of the consolidated financial statements.

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American Commerce Solutions, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of August 31, 2006 and for the

Three and Six Months Ended August 31, 2006 and 2005

(unaudited)

1. Background Information

American Commerce Solutions, Inc. was incorporated in Rhode Island in 1991 under the name Jaque Dubois, Inc., and was re-incorporated in Delaware in 1994. In July 1995, Jaque Dubois, Inc. changed its name to JD American Workwear, Inc. In December 2000, the stockholders voted at the annual stockholders meeting to change the name of JD American Workwear, Inc. to American Commerce Solutions, Inc. (the Company).

The Company is primarily a holding company with two wholly owned subsidiaries; International Machine and Welding, Inc. is engaged in the machining and fabrication of parts used in industry, and parts sales and service for heavy construction equipment; Chariot Manufacturing Company, Inc., which was acquired on October 11, 2003 from a related party, manufactures motorcycle trailers with fiberglass bodies.

2. Stock Based Compensation

At August 31, 2006, the Company has two stock-based employee compensation plans, all of which have been approved by the shareholders.

The Company previously applied the intrinsic value method provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations for stock-based compensation. Accordingly, the Company recognized compensation expense of $9,000 in stock-based employee compensation cost at August 31, 2005, which is reflected in the net loss. As permitted, the Company had previously elected to adopt the disclosure-only provisions of Statement of Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation*.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which replaces SFAS No. 123; *Accounting for Stock-Based Compensation*, (SFAS 123) and supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB 25). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Under SFAS 123R, the Company is required to measure the cost of employee services received in exchange for stock options and similar awards based on the grant-date fair value of the award and recognize this cost in the income statement over the period during which an employee is required to provide service in exchange for the award. The pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition. The Company adopted SFAS 123R on March 1, 2006 using the modified prospective method, which did not require the recognition of any non-cash charges, as there were no unvested stock options on that date.

The fair value concepts were not changed significantly in FAS 123R; however, in adopting FAS 123R, companies must choose among alternative valuation models and amortization assumptions. After assessing alternative valuation models and amortization assumptions, the Company will continue using the Black-Scholes valuation model and has elected to use the ratable method to amortize compensation expense over the vesting period of the grant.

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The following table reflects the pro forma effect on net loss for the three and six month periods ended August 31, 2005 as if we had applied the fair value recognition provisions of SFAS 123.

	Three Months Ended August 31, 2005		Six Months Ended August 31, 2005	
Net loss, as reported	$	(136,789)	$	(426,924)
Deduct: Additional stock based employee compensation expense determined under fair value based methods for all awards, net of taxes		(0)		(0)
Pro forma net loss	$	(136,789)	$	(426,924)
Net loss per share:				
As reported	$	(.00)	$	(.00)
Pro forma	$	(.00)	$	(.00)

3. Going Concern

Our consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred substantial operating losses since inception and has used approximately $327,700 of cash in operations for the six months ended August 31, 2006. The Company recorded losses from continuing operations of $367,073 and $699,585 for the three and six months ended August 31, 2006, respectively. Current liabilities exceed current assets by $1,761,808 at August 31, 2006. Additionally, the Company is in default on several notes payable. The ability of the Company to continue as a going concern is dependent upon its ability to reverse negative operating trends, raise additional capital, and obtain debt financing.

Management has revised its business strategy to include expansion into other lines of business through the acquisition of other products to manufacture. Management will continue to seek new sources of financing at more favorable terms. However, there can be no assurance that the Company will be able to raise capital, obtain debt financing, or improve operating results sufficiently to continue as a going concern.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary if the Company is unable to continue as a going concern.

4. Basis of Presentation

In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three and six month periods ended August 31, 2006 and 2005, (b) the financial position at August 31, 2006, and (c) cash flows for the six month periods ended August 31, 2006 and 2005, have been made.

The unaudited consolidated financial statements and notes are presented as permitted by Form 10-QSB. Accordingly, certain information and note disclosures normally included in condensed financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes of the Company for the fiscal year ended February 28, 2006. The results of operations for the three and six month periods ended August 31, 2006 are not necessarily indicative of those to be expected for the entire year.

5. Accounts Receivable, Factored

During the six months ended August 31, 2006, the Company factored receivables of approximately $704,700. In connection with the factoring agreement, the Company incurred fees of approximately $13,100 and $26,000 during the three and six months ended August 31, 2006, respectively. As of August 31, 2006, certain customers had remitted $15,254 to the Company on factored receivables; the Company recorded this amount as due to the factor and it is included in accrued expenses on the accompanying consolidated balance sheet. Any and all of the Company s indebtedness and obligations to the Factoring Company is guaranteed by two directors and collateralized by the Company s inventory and fixed assets.

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6. Common Stock and Stock Options

During the six months ended August 31, 2006 the Company issued 9,650,136 shares of common stock to a related party and a related company valued at $119,758 in exchange for a guarantee of a note payable. The Company also issued a related party 340,095 shares of common stock in exchange for the settlement of $10,203 of liabilities. In addition, the Company issued a total of 1,250,000 shares of common stock to two employees valued at $10,625 for services rendered.

During the six months ended August 31, 2005 the Company issued 5,000,000 shares of common stock for consulting services valued at $100,000, the Company also issued 12,637,772 shares of common stock in exchange for the assignment of debt and related accrued interest valued at $252,756 and 16,507,417 shares of common stock to convert related party debt and interest of $330,148. Also during the six months ended August 31, 2005, the Company issued 1,000,000 shares of common stock to a related party for services rendered valued at $17,000.

During the six months ended August 31, 2005 the Company recorded a note receivable for the exercise price of $34,000 when 2,000,000 options to purchase common stock were issued to and exercised by consultants. Total compensation expense recognized in conjunction with the issuance was $6,000.

During the period ended August 31, 2005, the Company granted 5,000,000 options, respectively, to employees in conjunction with the Employee Stock Incentive Plan, all of which were exercised immediately.

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7. Segment Information

The Company has two reportable segments during 2006 and 2005; manufacturing and fiberglass. Although both of these segments are in the manufacturing industry, they provide different types of products and services and each segment is subject to different marketing, production and technology strategies. Therefore, for the three and six months ended August 31, 2006 and 2005 the Company has included segment reporting.

For the three months ended August 31, 2006, information regarding operations by segment is as follows:

	Manufacturing	Fiberglass	Other	Total
Revenue	$ 473,176	$ 71,189		$ 544,365
Interest expense	$ 30,330	$ 4,061	$ 6,231	$ 40,622
Depreciation and amortization	$ 71,470	$ 35,925	$ 172	$ 107,567
Net loss	$ (86,215)	$ (65,883)	$ (214,975)	$ (367,073)
Property and equipment, net of accumulated depreciation	$ 4,264,012	$ 779,917	$ 1,437	$ 5,045,366
Segment assets	$ 4,530,650	$ 944,799	$ 106,182	$ 5,581,631

For the three months ended August 31, 2005, information regarding operations by segment is as follows:

	Manufacturing	Fiberglass	Other	Total