AMERICAN COMMERCE SOLUTIONS
Form 10QSB
October 17, 2005

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

FORM 10-QSB

ý **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended August 31, 2005

o **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. ý YES o NO

There were 224,400,415 shares of the Registrant's $.002 par value common stock outstanding as of August 31, 2005

Transitional Small Business Disclosure Format (Check one): Yes o No ý

American Commerce Solutions, Inc.

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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, 2005 and for the
Three and Six Months Ended August 31, 2005 and 2004
(unaudited)

American Commerce Solutions, Inc. and Subsidiaries

Consolidated Financial Statements

As of August 31, 2005 and for the
Three Months and Six Months Ended August 31, 2005 and 2004
(unaudited)

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American Commerce Solutions, Inc. and Subsidiaries

Consolidated Balance Sheet

August 31, 2005
(unaudited)

Assets		
Current assets:		
Cash	$	37,903
Accounts receivable, net of allowance of $19,212		60,460
Accounts receivable, factored		54,283
Inventory		144,011
Other receivables		118,042
Other current assets		122,656
Total current assets		537,355
Property and equipment, net of accumulated depreciation of $1,726,100		5,357,841
Other assets:		
Prepaid loan costs		2,912
Intangible assets, net of accumulated amortization		118,222
Real property held for resale		243,150
Total other assets		364,284
	$	6,259,480
Liabilities and Stockholders' Equity		
Current liabilities:		
Checks drawn in excess of bank balance	$ $	15,282
Current portion of notes payable		1,360,890
Current portion of notes payable, related parties		156,525
Accounts payable		232,697
Accrued expenses		159,843
Accrued interest		142,343
Due to stockholders		487,110
Deferred revenue		19,247
Total current liabilities		2,573,937
Notes payable, related parties, net of current portion		16,847
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; 224,922,415 shares issued; 224,400,415 shares outstanding		449,846

Additional paid-in capital		18,790,396
Stock subscription receivable		(10,000)
Treasury stock, at cost		(265,526)
Accumulated deficit		(15,268,874)
Loan costs from issuance of common stock		(27,149)
Total stockholders' equity		3,668,696
	$	6,259,480

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

American Commerce Solutions, Inc. and Subsidiaries

Consolidated Statements of Operations

(unaudited)

	Three Months Ended August 31,		**Six Months Ended August 31,**	
	2005	**2004**	**2005**	**2004**
Net sales	$ 665,450	$ 756,705	$ 1,320,349	$ 1,409,051
Cost of goods sold	433,656	522,302	892,877	944,754
Gross profit	231,794	234,403	427,472	464,297
Selling, general and administrative expenses	625,137	556,390	1,168,708	1,111,222
Loss from operations	(393,343)	(321,987)	(741,236)	(646,925)
Other income (expense)	280,448	(28,030)	296,643	(9,048)
Gain on forgiveness of debt	20,020		98,310	
Interest expense	(43,914)	(41,560)	(80,641)	(77,114)
Total other income (expense)	256,544	(69,590)	314,312	(86,162)
Net loss	$ (136,789)	$ (391,577)	$ (426,924)	$ (733,087)
Net loss per common share	$ (.00)	$ (.00)	$ (.00)	$ (.00)
Weighted average number of common shares outstanding	_222,737,372	150,687,683	212,811,259	148,288,362

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

American Commerce Solutions, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

	Six Months Ended August 31, 2005	Six Months Ended August 31, 2004
Operating activities:		
Net loss	$ (426,924)	$ (733,087)
Adjustments to reconcile net loss to net cash (used) by operating activities:		
Depreciation and amortization	219,199	205,002
Stock issued for services	27,000	
Options issued to consultants and employees	21,000	38,442
Gain on forgiveness of debt	(98,310)	
Gain on write down of debt	(15,000)	
Loss on involuntary conversion of assets		32,898
Increase in allowance for doubtful accounts	12,621	3,786
Decrease (increase) in:		
Accounts receivables	9,778	58,321
Inventory	(2,704)	(17,365)
Other receivables and other assets	226,835	(154,435)
Increase (decrease) in:		
Accounts payable and accrued expenses	(106,773)	278,477
Deferred income	1,628	19,671
Total adjustments	295,274	464,797
Net cash (used) by operating activities	(131,650)	(268,290)
Investing activities:		
Decrease in other receivables		83,225
Acquisition of property and equipment	(40,937)	(56,241)
Net cash (used) provided by investing activities	(40,937)	26,984
Financing activities:		
(Decrease) increase in bank overdraft	15,282	
Increase in due from factor	(21,332)	(6,788)
Proceeds from notes payable and long-term debt	57,741	56,190
Principal payments on notes payable and capital leases	(106,394)	(133,553)
Proceeds from advances from stockholders	165,400	12,300
Proceeds from issuance of common stock		39,860
Exercise of stock options and warrants	36,287	249,782
Net cash provided by financing activities	146,984	217,791
Net decrease in cash	(25,603)	(23,515)
Cash, beginning of period	63,506	79,363
Cash, end of period	$ 37,903	$ 55,848

Supplemental disclosures of cash flow information and noncash investing and financing activities:

Cash paid during the period for interest	$ 158,860	$ 51,446

During the six months ended August 31, 2005 and 2004, the Company increased notes payable by $12,577 and $14,089, respectively for an accrual of interest.

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 for 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 prepaid consulting agreement valued at $100,000 which is being amortized at approximately $5,000 per month. 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.

American Commerce Solutions, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of August 31, 2005 and for the
Three and Six Months Ended August 31, 2005 and 2004
(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, 2005, the Company has two stock-based employee compensation plans, all of which have been approved by the shareholders. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. The Company recognized $6,000 , $15,000, $30,600 and $30,600 for the three and six month periods ended August 31, 2005 and 2004, respectively, in stock-based employee compensation cost which is reflected in net loss. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation. The lack of additional stock based employee compensation expense under the fair value based method of accounting is a direct result of the options being exercised immediately.

	Three Months Ended		**Six Months Ended**	
	August 31, 2005	**August 31, 2004**	**August 31, 2005**	**August 31, 2004**
Net loss, as reported	$ (136,789)	$ (391,577)	$ (426,924)	$ (733,087)
Deduct: Additional stock based employee compensation expense determined under fair value based methods for all awards, net of taxes	(0)	(0)	(0)	(0)
Pro forma net loss	$ (136,789)	$ (391,577)	$ (426,924)	$ (733,087)
Net loss per share:				
As reported	$ (.00)	$ (.00)	$ (.00)	$ (.01)
Pro forma	$ (.00)	$ (.00)	$ (.00)	$ (.01)

3. Going Concern

The Company has incurred substantial operating losses since inception and has used $105,560 of cash in operations for the six months ended August 31, 2005. The Company recorded losses from continuing operations of $136,789 and $426,924 for the three and six months ended August 31, 2005. Current liabilities exceed current assets by $2,036,582 at August 31, 2005. 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 companies in exchange for the Company's stock. Management is currently negotiating new debt financing, the proceeds from which would be used to settle outstanding debts at more favorable terms, to finance operations, and to complete additional business acquisitions. 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, 2005 and 2004, (b) the financial position at August 31, 2005, and (c) cash flows for the six month periods ended August 31, 2005 and 2004, 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, 2005. The results of operations for the three and six month periods ended August 31, 2005 are not necessarily indicative of those to be expected for the entire year.

5. Accounts Receivable, Factored

During the six months ended August 31, 2005, the Company factored receivables of $476,144. In connection with the factoring agreement, the Company incurred fees of approximately $15,400 and $25,400 during the three and six months ended August 31, 2005. As of August 31, 2005, certain vendors had remitted $52,093 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.

6. Common Stock and Stock Options

During the six months ended August 31, 2005 the Company issued 5,000,000 shares of common stock in exchange for a prepaid consulting agreement valued at $100,000 which is being amortized at approximately $5,000 per month. 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.

Stock-based compensation to non-employees is valued using the Black-Scholes option pricing model. 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 six months ended August 31, 2004, there were 7,000,000 options issued and exercised by non-employees.

During the period ended August 31, 2005 and 2004, the Company granted 5,000,000 and 6,800,000 options, respectively, to employees in conjunction with the Employee Stock Incentive Plan, all of which were exercised immediately.

7. Segment Information

The Company has two reportable segments during 2005 and 2004; 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, 2005 and 2004 the Company has included segment reporting.

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

	Manufacturing	Fiberglass	Other	Total
Revenue	$ 619,119	$ 46,331		$ 665,450
Interest expense, net	$ 32,184	$ 4,486	$ 7,244	$ 43,914
Depreciation and amortization	$ 74,779	$ 26,006	$ 172	$ 100,957
Net Income (loss)	$ 252,632	$ (69,924)	$ (319,497)	$ (136,789)

For the three months ended August 31, 2004, information regarding operations by segment is as follows:

	Manufacturing	Fiberglass	Other	Total
Revenue	$ 640,577	$ 116,128	0	$ 756,705
Interest expense	$ 25,887	$ 0	$ 15,673	$ 41,560

Depreciation and amortization	$ 81,478	$ 27,559	$ 172	$ 109,209
Net (loss)	$ (92,204)	$ (85,785)	$ (213,588)	$ (391,577)

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

	Manufacturing	**Fiberglass**	**Other**	**Total**
Revenue	$ 1,176,053	$ 144,296		$ 1,320,349