

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

OBSIDIAN ENTERPRISES INC  
Form 10-Q  
June 21, 2004

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark One)

- [X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2004; OR
- [ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

0-17430

-----  
Commission File Number

OBSIDIAN ENTERPRISES, INC.

-----  
(Exact name of registrant as specified in its charter)

DELAWARE

35-2154335

-----  
(State or other jurisdiction of incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

111 MONUMENT CIRCLE, SUITE 4800  
INDIANAPOLIS, INDIANA

46204

-----  
(Address of principal executive offices)

-----  
(Zip code)

(317) 237-4122

-----  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding at
\$.0001 par value	June 14, 2004
	3,109,333 shares

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## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands except share data) (unaudited)

	April 30, 2004
	-----
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 561
Marketable securities	80
Accounts receivable, net of allowance for doubtful accounts of \$506 for 2004 and \$496 for 2003	3,922
Accounts receivable, related parties	77
Inventories, net	8,083
Prepaid expenses and other assets	871
	-----
Total current assets	13,594
Property, plant and equipment, net	23,729
Other assets:	
Other intangible assets, net of accumulated amortization of \$1,082 for 2004 and \$907 for 2003	7,633
Other	13
	-----
	\$ 44,969

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

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	April 30, 2004
	-----
Liabilities and Stockholders' Deficit	
Current liabilities:	
Current portion of long-term debt	\$ 9,231
Current portion of long-term debt, related parties	
Accounts payable, trade	5,467
Accounts payable, related parties	758
Accrued expenses and customer deposits	1,337
	-----
Total current liabilities	16,793
Accounts payable, related parties	556
Long-term debt, net of current portion	16,945
Long-term debt, related parties	16,071
Deferred income tax liabilities	647
Commitments and contingencies	
Minority interest	196
Redeemable stock:	
Common stock, 154,482 shares outstanding for 2004	1,007
Class of Series C Preferred Stock: 386,206 shares outstanding for 2003	--
Class of Series D Preferred Stock: 32,143 shares outstanding for 2003	--
Stockholders' equity (deficit):	
Common stock, par value \$.0001 per share; 10,000,000 shares authorized, outstanding 2,784,400 in 2004, 720,157 in 2003	1
Preferred stock, 5,000,000 shares authorized, no shares outstanding in 2004; Class of Series C convertible preferred stock, par value \$.001, 4,600,000 authorized, 3,982,193 issued and outstanding for 2003, 200,000 shares of undesignated preferred stock authorized	--
Preferred stock, 200,000 shares authorized, no shares outstanding in 2004; Class of Series D convertible preferred stock, par value \$.001, 88,330 shares issued and outstanding in 2003	--
Additional paid-in capital	12,625
Accumulated other comprehensive loss	(34)
Accumulated deficit	(19,838)
	-----
Total stockholders' deficit	(7,246)
	-----
	\$ 44,969
	=====

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

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in thousands except per share and share data)  
 (unaudited)

	Three Months Ended		Six Mo
	April 30, 2004	April 30, 2003	April 30, 2004
Net sales	\$ 16,292	\$ 15,107	\$ 28,338
Cost of sales	15,189	13,316	26,168
Gross profit	1,103	1,791	2,170
Selling, general and administrative expenses	3,019	2,197	5,364
Loss from operations	(1,916)	(406)	(3,194)
Other income (expense):			
Interest expense, net	(982)	(904)	(1,951)
Other expense, net	8	--	37
Loss before income taxes and discontinued operations	(2,890)	(1,310)	(5,108)
Income tax benefit	--	401	--
Loss before discontinued operations	(2,890)	(909)	(5,108)
Loss from discontinued operations, net of tax	--	--	--
Loss before minority interest	(2,890)	(909)	(5,108)
Minority interest	7	--	(24)
Net loss	\$ (2,883)	\$ (909)	\$ (5,132)
Basic and diluted loss per share attributable to common shareholders:			
From continuing operations	\$ (1.00)	\$ (1.26)	\$ (3.28)
Discontinued operations, net of tax	--	--	--
Net loss per share	\$ (1.00)	\$ (1.26)	\$ (3.28)

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Weighted average common shares outstanding basic and diluted	1,941,861	720,157	1,320,884
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The accompanying notes are an integral part of the condensed consolidated financial statements.

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT AND COMPREHENSIVE INCOME  
(dollars in thousands)  
(unaudited)

	Comprehensive	Common Stock		Series C
	Loss	Shares	Amount	Prefer
				Shares
Balance at October 31, 2003		720,157	\$ 1	3,982,
Assignment of 16,071 shares of Series D mandatory redeemable Preferred Stock	\$ --	--	--	--
Extension of stock options	--	--	--	--
Conversion of Series C and Series D convertible Preferred Stock to common stock	--	2,064,243	--	(3,982,
Loss on available-for-sale marketable securities	(34)	--	--	--
Fair value adjustment on redeemable Preferred Stock	--	--	--	--
Net loss	(5,132)	--	--	--
Total comprehensive loss	\$ (5,166)			
Balance at April 30, 2004	\$12,625	\$ (34)	\$ (19,838)	\$ (7,2

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	Additional Paid-in Capital	Other Comprehensive Loss	Accumulated Deficit	Tota
Balance at October 31, 2003	\$11,745	\$ --	\$ (15,004)	\$ (3,
Assignment of 16,071 shares of Series D mandatory redeemable Preferred Stock	337	--	--	
Extension of stock options	40	--	--	
Conversion of Series C and Series D convertible Preferred Stock to common stock	5	--	--	
Loss on available-for-sale marketable securities	--	(34)	--	
Fair value adjustment on redeemable Preferred Stock	498	--	298	
Net loss	--	--	(5,132)	(5,
Total comprehensive loss				
Balance at April 30, 2004	\$12,625	\$ (34)	\$ (19,838)	\$ (7,

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

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	Six Mo
	----- April 30, 200 -----
Cash flow from operating activities:	
Loss from continuing operations	\$ (5,132)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:	
Depreciation and amortization	1,563
Other	201
Changes in operating assets and liabilities	
Accounts receivable, net	(269)
Inventories, net	(628)
Other, net	2,764
	-----

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Net cash used in operating activities	(1,501)
-----	
Cash flows from investing activities:	
Capital expenditures	(627)
Other	60
-----	
Net cash used in investing activities	(567)
-----	
Cash flows from financing activities:	
Advances from (repayments to) related parties, net	1,312
Net borrowings (repayments) on lines of credit	(193)
Net borrowings (repayments) on long-term debt, including related parties	362
-----	
Net cash provided by financing activities	1,481
Net cash used in discontinued operations	--
-----	
Decrease in cash and cash equivalents	(587)
Cash and cash equivalents, beginning of period	1,148
-----	
Cash and cash equivalents, end of period	\$ 561
=====	
Interest paid	\$ 1,160
=====	
Taxes paid	\$ 57
=====	

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

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	Six Mo
	-----
	April 30, 200
	-----
Supplemental disclosure of noncash operating, investing and financing activities:	
Acquisition of coaches and equipment through issuance of debt	\$ --
Contribution to capital from sale of Champion to related party	\$ --



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Issuance of mandatory redeemable preferred stock in conjunction with the sale of Champion	\$	--
Tax effect of sale of coaches to a related party	\$	--
Fair value change on redeemable stock	\$	796
Reclassification of debt due to assumption of credit agreement by Fair Holdings	\$	--
Assignment and assumption of mandatory redeemable preferred stock	\$	337

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

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### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except per share and share data) (unaudited)

#### 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### DESCRIPTION OF BUSINESS:

Obsidian Enterprises, Inc. ("Obsidian Enterprises"), formerly Danzer Corporation, was reorganized (the "Reorganization") through an Acquisition and Plan of Reorganization with U.S. Rubber Reclaiming, Inc. and Related Entities ("U.S. Rubber Companies"), which was consummated on June 21, 2001 (the "Effective Date"). The Acquisition and Plan of Reorganization of Obsidian Enterprises with U.S. Rubber Companies was accounted for as a reverse acquisition as the shareholders of the U.S. Rubber Companies owned a majority of the outstanding stock of Obsidian Enterprises subsequent to the Acquisition and Plan of Reorganization. For accounting purposes, U.S. Rubber Reclaiming, Inc. is deemed to have acquired Obsidian Enterprises.

Pursuant to the Plan of Acquisition and Reorganization, United Expressline, Inc. was acquired July 31, 2001.

The accompanying financial data as of April 30, 2004 and for the six months ended April 30, 2004 and 2003 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The October 31, 2003 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. However, the Company believes that the disclosures are

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adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the period ended October 31, 2003. The Company follows the same accounting policies in preparation of interim reports.

In the opinion of management, all adjustments (which include normal recurring adjustments except as disclosed herein) necessary to present a fair statement of financial position as of April 30, 2004 and results of operations, cash flows and stockholders' deficit for the six months ended April 30, 2004 have been made. The results of operations for the six months ended April 30, 2004 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

The entities resulting from the merger described above, considered accounting subsidiaries of U.S. Rubber Reclaiming, Inc. (the accounting acquirer) and legal subsidiaries of Obsidian Enterprises, Inc. after the Acquisition and Plan of Reorganization are as follows:

U.S. Rubber Reclaiming, Inc. ("U.S. Rubber", the accounting acquirer), which is engaged in reclaiming scrap butyl rubber into butyl reclaim for resale to manufacturers of rubber products.

Obsidian Enterprises, Inc. (formerly Danzer, the legal acquirer), a holding company.

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### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except per share and share data) (unaudited)

#### 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Danzer Industries, Inc. ("Danzer Industries"), which is principally engaged in the design, manufacture and sale of truck bodies and cargo trailers.

Pyramid Coach, Inc. ("Pyramid"), which is engaged in the leasing of coaches, designed and fitted out for use for travel by country, rock bands and other business enterprises, primarily on weekly to monthly leases. The coach leasing segment also includes the assets, liabilities, equity and results of operations of DW Leasing, LLC ("DW Leasing"), Obsidian Leasing Company, Inc. ("Obsidian Leasing"), formed November 1, 2001 and DC Investments Leasing, LLC ("DC Investments Leasing"), formed December 13, 2002. DW Leasing and DC Investments Leasing are controlled by individuals who are also controlling shareholders of Obsidian Enterprises, Inc. and, accordingly, Pyramid. In addition, these entities meet the requirements for consolidation under FASB Interpretation No. 46 (FIN No. 46), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51. DW Leasing, Obsidian Leasing and DC Investments Leasing also own the majority of the coaches operated by Pyramid. All intercompany transactions are eliminated in consolidation.

United Expressline, Inc. ("United") manufactures and sells general use cargo trailers and specialty trailers used in the racing industry and for other special purposes.

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Champion Trailer, Inc. ("Champion"), which manufactures and sells transport trailers to be used primarily in the auto racing industry. Effective October 2002, the Company's Board of Directors agreed to a plan to dispose of Champion as further described in Note 3. The sale of Champion was completed January 30, 2003. Accordingly, the operations of Champion are classified as discontinued operations in the accompanying financial statements.

### BASIS OF PRESENTATION:

In the period since June 2001, the Company has incurred losses and reductions in equity. During this period losses and certain third-party debt repayments have been financed with DC Investments, LLC ("DC Investments") and its subsidiary Fair Holdings, Inc. ("Fair Holdings"), entities controlled by the Company's Chairman. Borrowings from DC Investments and Fair Holdings have been on terms that may not have been available from other sources. As of April 30, 2004, total debt outstanding to DC Investments and Fair Holdings was \$16,792. The Company incurred a net loss for the year ended October 31, 2003 of \$3,873, which included a loss from discontinued operations of \$49. In addition, the Company incurred a net loss from continuing operations of \$5,132 for the six months ended April 30, 2004.

The Company has continued to address liquidity and working capital through various means including operational changes and refinancing existing debt. During the period these plans were put in place, the Company received financial support from Fair Holdings.

During 2003, the Company undertook various actions to improve its operations and liquidity. Such actions as described below include the sale of Champion, conversion of debt to equity and refinancing of certain of its debt agreements. Management believes that the Company has financing agreements in place to provide adequate liquidity and working capital throughout fiscal 2004. However, there can be no assurance that such working capital and liquidity will in fact be adequate. Therefore, the Company may be required to draw upon other liquidity sources. The Company has therefore secured an increased financial commitment from Fair Holdings to provide, as needed, additional borrowings under a \$15,000 line of credit agreement, which expires January 1, 2007. Currently, availability under the agreement is approximately \$7,186.

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### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except per share and share data) (unaudited)

#### 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In view of these matters realization of assets and satisfaction of liabilities in the ordinary course of business is dependent on the Company's ability to generate sufficient cash flow to satisfy its obligations on a timely basis, maintain compliance with its financing agreements and continue to receive financing support from Fair Holdings to provide liquidity if needed.

Management, as a part of its plan towards resolving these issues and generating

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positive cash flow and earnings, is taking the actions as described below. Although management believes these actions will improve operations and liquidity, there can be no assurance that such actions will sufficiently improve operations or liquidity.

- o We commenced a strategy in late 2003 of pursuing strategic acquisition opportunities that include targets both in our traditional, basic industries and manufacturing sectors as well as targets that possess assets (including cash) that are outside our traditional areas of focus, and available on terms that our management believed to be attractive. While no material negotiations are currently active with respect to any targets, we anticipate that over the course of 2004 we will pursue acquisition opportunities that we deem attractive in a variety of industry sectors. Ultimately, these acquisitions may (but cannot be guaranteed to) result in our having increased financial resources and potentially a broader asset base and more diversified sources of revenue.
- o Implementation of the new fine grind production process in the butyl rubber reclaiming segment. The new process provides the opportunity to maximize the use of the existing raw materials in the existing butyl reclaim production and also provides potential additional production of natural rubber.
- o We continue to organize our butyl rubber reclamation project with chapters of the Future Farmers of America in various States. The success of this project will provide a new resource for obtaining the additional raw materials for our butyl reclaim segment.
- o Capitalize on the trailer production line that provides a new product line at Danzer Industries and its existing and potential new customers. This production line and related sales effort have allowed us to enter a new market along the East coast of the U.S. Our ability to capitalize on this opportunity will be a determining factor on our ability to reduce this operation's use of working capital resources. Management will continue to evaluate the operations on a continuous basis.

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### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except per share and share data) (unaudited)

#### 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Our high level of debt creates liquidity issues for us and the stringent financial covenants that are common for this type of debt increase the probability that our subsidiaries may from time to time be in technical default under these loans. These risks are mitigated, in part, for our United and U.S. Rubber subsidiaries by the right described under "Guarantees of Partners." They are also mitigated by the divestiture of Champion completed in January 2003, and the completed refinancing efforts over the past year with respect to U.S. Rubber

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and the coach leasing segment.

Significant financial covenants in our credit agreements are the maintenance of minimum ratios, levels of earnings to funded debt and fixed charge coverage rate. We did not meet requirements and covenants in certain debt agreements as further discussed in Note 4.

### SIGNIFICANT ACCOUNTING POLICIES:

#### USE OF ESTIMATES:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, inventories and deferred tax assets, the fair values of assets and liabilities when allocating the purchase price of acquisitions, and the carrying value of property and equipment and goodwill. Actual results may differ from those estimates.

#### Earnings Per Share:

Basic per-share amounts are computed, generally, by dividing net income or loss attributable to common shareholders by the weighted-average number of common shares outstanding. Diluted per-share amounts are computed similar to basic per-share amounts except that the weighted-average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive.

All references in the financial statements related to share amounts, per share amounts and average shares outstanding have been adjusted retroactively to reflect the Company's 1-to-50 reverse stock split of its common stock effective February 16, 2004.

The Company has a note payable agreement which is convertible by the holder to common stock totaling 100,000 shares at a conversion rate of \$5.00 per share. In addition, the Company has options outstanding to purchase a total of 16,000 shares of common stock, at a weighted average exercise price of \$4.50. However, because the Company incurred a loss for the periods ended April 30, 2004 and 2003, respectively, the inclusion of those potential common shares in the calculation of diluted loss per share would have an antidilutive effect.

### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except per share and share data) (unaudited)

#### 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT

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### ACCOUNTING POLICIES, CONTINUED

The Company's Series C Preferred Stock and Series D Preferred Stock, which have all the rights and privileges of the Company's common stock, were convertible into common stock at rates of .40-to-1 and 3.50-to-1, respectively. Following the effective date of the 50-to-1 reverse split of the common stock, these shares were converted to common stock, and such shares are included in the weighted average common shares outstanding from the date of conversion. There were no shares of preferred stock outstanding as of April 30, 2004.

Basic and diluted loss per share have been computed as follows:

	Three Months Ended		Six M
	April 30, 2004	April 30, 2003	April 30, 2004
Loss before discontinued operations and minority interest	\$ (2,883)	\$ (909)	\$ (5,13
Change in fair value of mandatory redeemable stock	935	(32)	79
Loss attributable to common shareholders before discontinued operations	(1,948)	(941)	(4,33
Loss from discontinued operations, net of tax	--	--	-
Net loss attributable to common shareholders	\$ (1,948)	\$ (941)	\$ (4,33
Weighted average common shares outstanding, basic and diluted	1,941,861	720,157	1,320,88
Loss per share, basic and diluted, attributable to common shareholders:			
From continuing operations	\$ (1.00)	\$ (1.26)	\$ (3.28)
Discontinued operations	--	--	--
Net loss per share	\$ (1.00)	\$ (1.26)	\$ (3.28)

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### 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### STOCK OPTIONS

The Company accounts for stock-based compensation under the provisions of APB No. 25. The Company has adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation expense is recognized if the exercise price of stock options equals the fair market value of the underlying stock at the date of grant. Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's basic and diluted net loss per share would have been as follows:

	Three Months Ended		Six Months
	April 30, 2004	April 30, 2003	April 30, 2004
Net loss as reported	\$ (2,883)	\$ (909)	\$ (5,132)
Deduct total stock-based employee compensation expense determined under fair value methods	--	--	--
Pro forma net loss	(2,833)	(909)	(5,132)
Loss per share:			
As reported, basic and diluted:	\$ (1.00)	\$ (1.26)	\$ (3.28)
Pro forma, basic and diluted:	\$ (1.00)	\$ (1.26)	\$ (3.28)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. There were no stock options issued for the three and six months ended April 30, 2004 and 2003. During 2004 and 2003, certain options were extended. Their effect on pro forma net income was immaterial.

#### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except per share and share data) (unaudited)

### 2. INVENTORIES

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Inventories are stated at the lower-of-cost (first-in, first-out method) or market and are comprised of the following components:

	April 30, 2004		October 31, 2003
Raw materials	\$ 5,059	\$	4,647
Work-in-process	887		499
Finished goods	2,444		2,630
Valuation reserve	(307)		(321)
Total	\$ 8,083	\$	7,455

### 3. DISCONTINUED OPERATIONS

On October 30, 2002, the Company's Board of Directors agreed to sell the assets of Champion to an entity controlled by Messrs. Durham and Whitesell (Officers of the Company) for the assumption of all liabilities of Champion excluding its subordinated debt. The decision to divest Champion was based on the entity's inability to achieve profitable operations in the foreseeable future without substantial cash infusion. The Company also agreed in principal to settle the outstanding subordinated debt due to Markpoint Equity Fund J.V. ("Markpoint") from Champion in exchange for a cash payment of \$675 and issuance to the debt holder of 32,143 shares of the Company's Series D Preferred Stock. In addition, the agreement provided Markpoint the option to require the Company to repurchase these shares at a price of \$21 per share. The sale of Champion was completed on January 30, 2003. Champion is accounted for as a discontinued operation and therefore the results of operations and cash flows have been removed from the Company's continuing operations for all periods presented.

The sale of Champion resulted in an increase in equity of the Company of \$1,142, net of tax of \$97. No gain or loss was recognized on the sale because of the involvement of related parties.

A summary of the Company's discontinued operations for the three and six months ended April 30, 2003 are as follows:

	Three Months Ended April 30, 2003		Six Months Ended April 30, 2003
Net sales	\$ --	\$	170
Operating expenses	--		(286)
Interest	--		(85)
Other	--		127
Tax benefit	--		25
Net loss	\$ --	\$	(49)



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### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except per share and share data) (unaudited)

#### 4. FINANCING ARRANGEMENTS

##### UNITED

At April 30, 2004, United was not in compliance with financial covenants with Huntington Capital Investment Company. Huntington Capital Investment Company covenants require the Company to maintain a minimum level of fixed charge coverage. Huntington waived their covenant violations and we are currently in discussions regarding modifications to the covenants.

##### US Rubber Reclaiming, Inc.

At April 30, 2004 US Rubber Reclaiming, Inc. was not in compliance with certain covenants with PNC Bank requiring a fixed charge coverage ratio of not less than 1.0 to 1.0 and maintaining maximum capital expenditures of \$400. The Company received a waiver with certain conditions to be met by July 31, 2004 including a capital contribution of \$242.

#### GUARANTEES OF PARTNERS

We have an agreement with Partners that gives us the right to mandate a capital contribution from the Partners if the lenders to U.S. Rubber or United were to declare a default. In either of those events, the Company has the right to enforce a capital contribution agreement with Partners up to \$1,370 on U.S. Rubber and \$1,000 on United to fund the respective subsidiary's shortfall. These payments, if any, would be applied directly to reduce the respective subsidiary's debt obligations to the lender.

#### 5. MINORITY INTEREST IN AFFILIATE

As discussed in Note 1, DW Leasing and DC Investments Leasing, entities controlled by the Company's Chairman are included in consolidated financial statements and are subject to the provisions of FIN No. 46. Historically, these entities generated negative operating results and the operating model did not anticipate income in excess of losses previously recognized in the consolidated financial statements. During 2003 and through the 2nd quarter of 2004, DC Investments Leasing reported positive operating results. As a result, minority interest related to the income of DC Investments Leasing in the amount of \$24 has been recorded as a charge in the April 30, 2004 statement of operations and has been recognized on the balance sheet. Future operating results of DC Investments Leasing, if positive, will continue to be charged to minority interest. In addition, should DW Leasing generate future income in excess of previously recognized losses, such amounts would be charged to minority interest in the consolidated statement of operations and recognized as minority interest on the consolidated balance sheet. During the six months ended April 30, 2004, DW Leasing recorded income of \$17. As of April 30, 2004, accumulated losses of DW Leasing recognized in consolidated statements of operations exceeded income by approximately \$318.

#### 6. MANDATORY REDEEMABLE PREFERRED STOCK

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On November 10, 2003, Markpoint exercised its remaining Put Option that was assigned to Fair Holdings, as discussed in Note 3. Markpoint was paid \$337 by Fair Holdings and the exercise of the option resulted in a reduction in mandatory redeemable preferred stock and an increase in additional paid-in capital of \$337.

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### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except per share and share data) (unaudited)

#### 7. STOCKHOLDERS' DEFICIT

On December 3, 2003, the Company's stockholders and Board of Directors approved a 50-to-1 reverse stock split. The reverse stock split was effective for trading purposes as of February 18, 2004. As a result of the reverse stock split and the amendment to the Certificate of Incorporation, approximately 720,157 shares of common stock were outstanding and the number of authorized shares of common stock has been reduced to 10,000,000.

On March 12, 2004, the preferred shares for Series C and D were converted to common, which increased common stock outstanding by 2,219,013 shares including 154,482 shares classified as mandatory redeemable stock. Preferred shares authorized remain five million shares with no preferred shares issued or outstanding as of April 30, 2004.

On December 31, 2003, the Company's Board of Directors approved the extension of the expiration date of 4,000 fixed stock options, exercisable at \$2.50. The original expiration date of December 31, 2003 was extended to June 30, 2004. The Company recognized \$40 of compensation expense related to the extension of the options during the three months ended January 31, 2004.

#### 8. BUSINESS SEGMENT DATA AND GEOGRAPHIC DATA

The Company operates in three industry segments comprised of trailer and related transportation equipment manufacturing (trailer manufacturing); coach leasing; and butyl rubber reclaiming. All sales are in North and South America primarily in the United States, Canada and Brazil. Selected information by segment follows:

	Three Months Ended April 30, 2004				
	Trailer Manufacturing	Coach Leasing	Butyl Rubber Reclaiming	Total Segments	Corporate
Sales:					
Domestic	\$ 11,422	\$ 974	\$ 2,134	\$ 14,530	\$
Foreign	1,108	--	654	1,762	

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Total	\$ 12,530	\$ 974	\$ 2,788	\$ 16,292	\$
Cost of goods sold	\$ 11,858	\$ 528	\$ 2,803	\$ 15,189	\$
Loss before taxes and minority interest	\$ (896)	\$ (296)	\$ (357)	\$ (1,549)	\$ (1,3
Identifiable assets	\$ 20,248	\$ 13,714	\$ 10,260	\$ 44,222	\$ 7
Depreciation and amortization expense	\$ 176	\$ 226	\$ 353	\$ 756	\$
Interest expense	\$ 421	\$ 273	\$ 125	\$ 819	\$ 1

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except per share and share data)  
(unaudited)

8. BUSINESS SEGMENT DATA AND GEOGRAPHIC DATA, CONTINUED

	Three Months Ended April 30, 2003				
	Trailer Manufacturing	Coach Leasing	Butyl Rubber Reclaiming	Total Segments	Corporate
Sales:					
Domestic	\$ 9,970	\$ 1,419	\$ 2,439	\$ 13,828	\$
Foreign	876	--	403	1,279	
Total	\$ 10,846	\$ 1,419	\$ 2,842	\$ 15,107	\$
Cost of goods sold	\$ 10,034	\$ 732	\$ 2,550	\$ 13,316	\$
Loss before taxes and minority interest	\$ (865)	\$ (173)	\$ (129)	\$ (1,167)	\$ (1
Identifiable assets	\$ 21,271	\$ 13,871	\$ 10,363	\$ 45,505	\$ 7
Depreciation and amortization expense	\$ 189	\$ 258	\$ 311	\$ 758	\$
Interest expense	\$ 342	\$ 341	\$ 116	\$ 799	\$ 1

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Six Months Ended April 30, 2004

	Trailer Manufacturing	Coach Leasing	Butyl Rubber Reclaiming	Total Segments	Corporate
Sales:					
Domestic	\$ 18,921	\$ 2,014	\$ 4,453	\$ 25,388	\$
Foreign	2,088	--	862	2,950	
Total	\$ 21,009	\$ 2,014	\$ 5,315	\$ 28,338	\$
Cost of goods sold	\$ 19,746	\$ 1,115	\$ 5,307	\$ 26,168	\$
Loss before taxes and minority interest	\$ (1,717)	\$ (634)	\$ (664)	\$ (3,015)	\$ (2,0
Identifiable assets	\$ 20,248	\$ 13,714	\$ 10,260	\$ 44,222	\$ 7
Depreciation and amortization expense	\$ 355	\$ 435	\$ 705	\$ 1,500	\$
Interest expense	\$ 818	\$ 601	\$ 242	\$ 1,661	\$ 2

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except per share and share data)  
(unaudited)

8. BUSINESS SEGMENT DATA AND GEOGRAPHIC DATA, CONTINUED

Six Months Ended April 30, 2003

	Trailer Manufacturing	Coach Leasing	Butyl Rubber Reclaiming	Total	Corporate
Sales:					
Domestic	\$ 16,982	\$ 2,526	\$ 4,652	\$ 24,160	\$ --
Foreign	1,223	--	624	1,847	--
Total	\$ 18,205	\$ 2,526	\$ 5,276	\$ 26,007	\$ --
Cost of goods sold	\$ 16,754	\$ 1,354	\$ 4,948	\$ 23,056	\$ --
Loss before taxes and minority interest	\$ (1,867)	\$ (400)	\$ (478)	\$ (2,745)	\$ (242

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Identifiable assets	\$ 21,271	\$ 13,871	\$ 10,363	\$ 45,505	\$ 756
Depreciation and amortization expense	\$ 378	\$ 448	\$ 620	\$ 1,446	\$ --
Interest expense	\$ 674	\$ 611	\$ 239	\$ 1,524	\$ 164

Obsidian Enterprises, Inc. (legal parent) allocates selling, general and administrative expenses to the respective companies primarily based on a percentage of sales. For the three and six months ended April 30, 2004 and 2003, allocated corporate expenses by segment were as follows:

	Three Months Ended		Six Months Ended	
	April 30, 2004	April 30, 2003	April 30, 2004	April 30, 2003
Trailer manufacturing	\$ 844	\$ 339	\$ 1,275	\$ 657
Coach leasing	125	44	188	92
Butyl rubber reclaiming	213	90	323	189
	\$ 1,182	\$ 473	\$ 1,786	\$ 938

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except per share and share data)  
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9. RELATED PARTIES

The Company makes advances, receives loans and conducts other business transactions with affiliates resulting in the following amounts for the periods ended:

	April 30, 2004	October 31, 2003
Balance sheet:		
Current assets:		
Accounts receivable, Obsidian Capital Partners	\$ 8	\$ 8
Accounts receivable, DC Investments and Fair Holdings	13	--
Accounts receivable, other affiliated entities	56	44
Total assets	\$ 77	\$ 52

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Current liabilities:			
Accounts payable, Obsidian Capital Company	\$	34	\$ 275
Accounts payable, related parties		--	320
Accounts payable, DC Investments and Fair Holdings		721	221
Accounts payable, other affiliated entities		3	21
Long-term portion:			
Accounts payable, related parties		556	--
Notes payable, DC Investments		700	700
Notes payable, Fair Holdings		7,557	7,192
Line of credit, Fair Holdings		7,814	6,045
-----			
Total liabilities	\$	17,385	\$ 14,774
=====			

	Three Months Ended		Six Mo
	April 30, 2004	April 30, 2003	April 30, 2004
-----			
Statement of operations:			
Interest expense, DC			
Investments and Fair Holdings	\$ 338	\$ 324	\$ 840
Rent expense, Obsidian Capital			
Company	\$ --	\$ 15	\$ --
Rent expense, Fair Holdings	\$ 13	\$ 13	\$ 26

Related-party amounts classified as current reflect those portions of the total receivable or payable that were currently due in accordance with the terms. Amounts classified as long term represent amounts not currently due, amounts that are expected to be converted to equity subsequent to April 30, 2004 and October 31, 2003, respectively, or amounts converted to long-term debt subsequent to April 30, 2004.

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except per share and share data)  
(unaudited)

10. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company is liable for contract completion and product performance. In the opinion of management, such obligations will not significantly affect the Company's financial position or results of operations.

11. SUBSEQUENT EVENTS

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As of the close of business on April 30, 2004, Obsidian Enterprises, Inc. acquired all of the outstanding shares of capital stock of Classic Manufacturing, Inc. a Michigan-based manufacturer of open and enclosed trailers, for a purchase price of \$2,250,000 in cash and 170,451 shares of the Company's Common Stock.

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### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### IMPORTANT NOTE ABOUT FORWARD-LOOKING STATEMENTS.

##### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The Company and its representatives may from time to time make written or oral forward-looking statements, including statements included in or incorporated by reference into this Quarterly Report on Form 10-Q and the Company's other filings made with the Securities and Exchange Commission. These forward-looking statements are based on management's views and assumptions and involve risks, uncertainties and other important factors, some of which may be beyond the control of the Company, that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Item 2. Readers should carefully review the risks described in this and other documents that the Company files from time to time with the Securities and Exchange Commission. The forward-looking statements speak only as of the date that they are made and the Company undertakes no obligation to update or revise any of the forward-looking statements.

##### OVERVIEW

The Company operates in three industry segments, comprised of trailer and related transportation equipment manufacturing, butyl rubber reclaiming, and coach leasing. Trailer and related transportation equipment manufacturing includes the operations of United and Danzer Industries. Butyl rubber reclaiming includes the operations of U.S. Rubber and coach leasing includes the operations of Pyramid, DW Leasing, Obsidian Leasing and DC Investments Leasing.

Champion is accounted for as a discontinued operation, therefore, its results of operations and cash flow have been removed from the Company's continuing operations for all periods presented.

##### RESULTS OF OPERATIONS

The Company's overall operating results and financial condition during the six months ended April 30, 2004 compared to the six months ended April 30, 2003 were adversely affected by the limited availability of raw materials in the butyl reclaiming segment, significant increases in material costs in the trailer and related transportation manufacturing segment primarily related to steel and

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plywood. Also there was decrease in availability of freight carriers and adverse weather conditions that affected the Company's ability to deliver orders in the trailer and related transportation equipment manufacturing segment.

During the quarter ended April 30, 2004 we initiated price increases on our products in the trailer and related transportation manufacturing segment ranging from nine to eleven percent. These price increases were implemented to offset the significant increases we experienced in material costs.

We commenced a strategy in late 2003 of pursuing strategic acquisition opportunities that include targets both in our traditional, basic industries and manufacturing sectors as well as targets that possessed assets (including cash) that, while outside our traditional areas of focus, were available on terms that our management believed to be attractive. During the six months ended April 30, 2004 we were active with respect to an exchange offer for Net Perceptions, Inc. As of April 2, 2004 we withdrew our offer with respect to the exchange of shares. We incurred expenses for the exchange offer which totaled \$577 above our normal administrative expenses. We anticipate that over the course of 2004 we will pursue other acquisition opportunities that we deem attractive in a variety of industry sectors. Ultimately, these acquisitions may (but can not be guaranteed to) result in our qualifying for listing on the Nasdaq SmallCap Market or a national securities exchange, having increased financial resources and potentially a broader asset base and more diversified sources of revenue.

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The following table shows net sales by product segment:

	Three Months Ended		Six Months Ended
	April 30, 2004	April 30, 2003	April 30, 2004
Trailer manufacturing	\$ 12,530	\$ 10,846	\$ 21,009
Butyl rubber reclaiming	2,788	2,842	5,315
Coach leasing	974	1,419	2,014
Net Sales	\$ 16,292	\$ 15,107	\$ 28,338

The following is a discussion of the major elements impacting the Company's operating results by segment for the three and six months ended April 30, 2004 compared to the three and six months ended April 30, 2003. The comments that follow should be read in conjunction with the Company's condensed consolidated financial statements and related notes contained in this Form 10-Q.

### TRAILER AND RELATED TRANSPORTATION EQUIPMENT MANUFACTURING

The following table shows sales, cost of sales and gross profit for this segment for the periods indicated:

Three Months Ended

Six Months Ended



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	April 30, 2004	April 30, 2003	April 30, 2004
Net Sales	\$ 12,530	\$ 10,846	\$ 21,009
Cost of Sales	11,858	10,034	19,746
Gross Profit	\$ 672	\$ 812	\$ 1,263
Gross Profit %	5.4%	7.5%	6.0%

Three Months Ended April 30, 2004 Compared to The Three Months Ended April 30, 2003

Net sales in this segment for the three months ended April 30, 2004 as compared to the three month period ended April 30, 2003 increased 15.5% in the amount of \$1,684. Sales in this segment were higher than the prior year due primarily to two factors. First, a discount/rebate program was implemented in February 2003 for the cargo trailers to stimulate sales and remain competitive until a new economy cargo trailer was introduced. The discounts totaled \$600 for the three months ended April 30, 2004 and no special discount programs have been offered. Cargo trailer sales have also increased at our Hagerstown MD facility by \$473 for the three months ended April 30, 2004. Sales of truck bodies continue to lag, and are below 2003 and decreased \$38 for the quarter ended April 30, 2004. The Company does not anticipate any significant pick up in orders from this segment's truck body customers in the near future.

The gross profit percentage decreased 2.1% for the three months ended April 30, 2004. The reduction in gross profit is attributable to the following factors.

First we have experienced significant price increases from our vendors for raw materials, primarily for steel and plywood. The increases on average ranged from 20 to 55 percent. During our second quarter sales prices were increased by 9% to realign our margins to offset the material cost increases.

Second, during the first quarter of 2003, the Company opened an additional cargo trailer manufacturing facility. This facility did not obtain the level of efficiency as anticipated and therefore was closed during March 2004. Production from this facility was redirected to our other operating facilities.

Gross profit has also been negatively impacted by a reduction in sales of truck bodies, which has reduced the ability to absorb overhead at the truck body manufacturing facility in Hagerstown MD. The Company began manufacturing cargo trailers in this facility to provide additional capacity and serve new markets. Production levels are increasing but have not yet reached a level of efficiency of existing cargo trailer facilities. Management is currently analyzing the use of the truck body facility and considering options of continuing production of truck bodies and cargo trailers, discontinuing one of these lines at this

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facility or closing the facility.

In conjunction with the analysis of operations at the truck body manufacturing facility, management is also analyzing any potential asset impairment at this facility. Total assets of Danzer as of April 30, 2004 were \$1,896 which represents approximately 4% of consolidated total assets.

Six Months Ended April 30, 2004 Compared to The Six Months Ended April 30, 2003

Sales in this segment increased \$2,804 or 15.4% over the comparable period of 2003. The increase was primarily related to the acceptance of our new product introduction of the economy line trailer as well as a stronger order position for our cargo trailers as compared to 2003. Additional capacity was obtained through our Hagerstown MD facility as well as increased production at all other operating facilities. The truck body line continues to be depressed as capital spending in the telecommunications industries as remained low.

Looking ahead, for the trailer and related equipment manufacturing segment are expected to grow in fiscal 2004 compared to fiscal 2003. Orders for our cargo trailers remain strong and have increased approximately 43% and our new economy line trailer is being well received by our customers. We believe sales of truck bodies will continue at about the same level as 2003 unless a replacement market can be developed.

The gross profit decrease of 2% was primarily a result of increased material cost. The cost of plywood and steel, major components of our cargo trailers, increased significantly starting in August 2003 and continued through April 2004. The increase in price on average ranged from 20 to 55%. We have and will continue to evaluate alternative materials to replace the plywood and continue to negotiate with new suppliers. We also believe gross profits will continue to be adversely impacted by the lack of sales volume in truck bodies during 2004 at the Hagerstown, Maryland, plant. Although the Hagerstown plant has increased its production and sales of cargo trailers, the volume is currently below levels to fully absorb its fixed overhead costs.

### BUTYL RUBBER RECLAIMING

The following table shows sales, cost of sales and gross profit for this segment for the periods indicated:

	Three Months Ended		Six Months
	April 30, 2004	April 30, 2003	April 30, 2004
Net Sales	\$ 2,788	\$ 2,842	\$ 5,315
Cost of Sales	2,803	2,550	5,307
Gross Profit	\$ (15)	\$ 292	\$ 8
Gross Profit %	(.5)%	10.3%	.2%

Three Months Ended April 30, 2004 Compared To The Three Months Ended April 30,

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2003

Net sales for the three months ended April 30, 2004 compared to same period for 2003 decreased \$54 or 1.9%. Sales in this segment decreased due to the lack of consistent sources of raw materials. In addition, harsher weather conditions during the winter months slow the reclamation of butyl tubes in the North.

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Gross profit decreased 10.8% for the three months ended April 30, 2004. The primary reasons for this decrease are a lack of a consistent supply of raw materials, increased energy costs and increased repairs and maintenance on machinery and equipment. The Company's reclaim process is most efficient when raw material consists of primarily road worn inner tubes with a mix of other butyl rubber. As a result of having to use less than optimum raw material mix in the reclaiming process, additional processing time is incurred to ensure delivery of quality product.

Six Months Ended April 30, 2004 Compared To the Six Months Ended April 30, 2003

Net sales in this segment for the six months ended April 30, 2004 as compared to the six-month period ended April 30, 2003 increased .7% in the amount of \$39.

Sales in this segment were higher than the six months ended April 30, 2002 because of increased demand from Company's tire manufacturing customers as noted above. While the Company experienced an increase in sales, management does not anticipate a return to historic levels of sales of reclaimed butyl rubber to tire manufacturers, due to the lack of consistent sources of raw materials.

Looking ahead, future sales growth will depend greatly on successful implementation of our recycling program with the chapters of The National FFA Organization and finding other sources of material. In addition, the continued implementation of our fine grind process will increase the ability to utilize some additional rubber products in our butyl reclaim process and add potential new products.

Gross profit percentage decreased 6.0% for the six months ended April 30, 2004 compared to the six months ended April 30, 2003. As noted above, the primary reasons for this decrease is a lack of a consistent supply of raw materials and increasing energy costs and increased repairs and maintenance on machinery and equipment. The Company's reclaim process is most efficient when raw material consists of primarily road worn inner tubes with a mix of other butyl rubber. Since the introduction of the tubeless tire for automobiles in the 1970s, sources of material have declined substantially and the cost of available raw materials has increased. As a result of having to use less than optimum raw material mix in the reclaiming process, additional processing time is incurred to ensure delivery of quality product. In addition, alternative sources of material, including overseas sources, are being pursued to provide a consistent supply of material in the future. Until such time that consistent sources of raw materials are available, sales growth and gross profit in this segment will be limited.

### COACH LEASING

The following table shows sales, cost of sales and gross profit for this segment

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for the periods indicated:

	Three Months Ended		Six Months Ended
	April 30, 2004	April 30, 2003	April 30, 2004
Net Sales	\$ 974	\$ 1,419	\$ 2,014
Cost of Sales	528	732	1,115
Gross Profit	\$ 446	\$ 687	\$ 899
Gross Profit %	45.8%	48.4%	44.6%

Three Months Ended April 30, 2004 Compared To The Three Months Ended April 30, 2003

Sales for the three months ended April 30, 2004 decreased \$445 or 31% from the period April 30 2003. The decrease in sales relates to a lower utilization of our fleet compared to the same period for 2003. Our management believes the lower utilization is due to increased market competition. Tours which utilized our coaches during the winter months of 2003 did not return in 2004. The seasonality of the segment sales also have an impact and historically are stronger in the spring, summer and fall.

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The gross profit percentage decreased 2.6% for the three months ended April 30, 2004 compared to the period April 30, 2003. The reduction is attributable primarily to the cost of maintaining a larger fleet and lower utilization of our coaches for the three months ended April 30, 2004. Also additional coaches were leased from unrelated third parties to meet current demand for newer coaches. Third party leases reduce the overall gross margin of the segment.

Six Months Ended April 30, 2004 Compared To The Six Months Ended April 30, 2003

Sales for the six months ended April 30, 2004 decreased 20% in the amount of \$512 over the comparable six-month period ended April 30, 2003. The decrease in sales is attributable to decreased utilization of the coach fleet due to increased market competition. Our management believes utilization will increase as a result from marketing efforts to specialized tour groups and corporate customers through the remainder of 2004. These customers are in addition to the traditional country and western performers who have traditionally been this segment's primary customer base.

Looking ahead, the first half of the year is typically the segment's lowest sales period due to seasonality. Business is historically stronger in the summer and fall.

Gross profit for this segment was 44.6% for the six months ended April 30, 2004

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compared to 46.4% for the comparable six-month period ended April 30, 2003. As noted above, the reduction is attributable primarily to additional costs of maintaining a larger fleet during the lower utilization period of the year and the need to sublease newer coaches from third parties.

### SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES

The Company's selling, general and administrative expenses increased \$822 or 37% for the three months ended April 30, 2004 compared to the three-month period ended April 30, 2003 and \$1,111 or 26% for the six months ended April 30, 2004 compared to the six-month period ended April 30, 2003. The increase in expenses were primarily professional fees and other expenses related to the unsuccessful exchange offer for Net Perceptions, Inc. These expenses are non recurring and totaled \$577 for the six months ended April 30, 2004. Other increases include additional marketing expenses for website advertising and an increase in amortization expense for the six months ended April 30, 2004.

### INTEREST EXPENSE

Interest expense as a percentage of average borrowings is as follows:

	Three Months Ended		Six Months Ended
	April 30, 2004	April 30, 2003	April 30, 2004
Average debt borrowings	\$ 41,960	\$ 39,300	\$ 41,663
Interest expense as a percentage of average debt borrowings	2.3%	2.3%	4.7%
Interest expense as a percentage of average debt borrowings, annualized	9.4%	9.2%	9.4%

The increase is primarily due to the variable rates and refinancing of debt at higher rates.

### INCOME TAX PROVISION

There was no income tax benefit recorded for the three- or six-month periods ended April 30, 2004 as compared to \$401 of tax benefit in the three-month period ended April 30, 2003 and \$559 for the six-month period ended April 30, 2003. Income tax benefits are created primarily through NOL carry forwards recognized to the extent they are available to offset the Company's net deferred tax liability. Operating losses during the quarter ended January 31, 2004 have

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been reserved with a valuation allowance. Any quarterly tax benefits are based on the estimated effective tax rate for the full year.

### DISCONTINUED OPERATIONS

On October 30, 2002, the Company's Board of Directors agreed to sell substantially all assets of Champion to an entity controlled by Messrs. Durham and Whitesell in exchange for assumption of all liabilities of Champion, other than its subordinated debt. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for Impairment of Long-Lived Assets, the operating results of Champion have been classified as discontinued operations. The losses from discontinued operations for the six months ended April 30, 2003 represent the losses of Champion during this period, net of tax benefit of \$97. The loss from discontinued operations for the three and six months ended April 30, 2003 were \$0 and \$49, respectively.

Substantially all assets of Champion subject to its liabilities were sold on January 30, 2003. No gain or loss was recognized in the consolidated statement of operations due to the involvement of related parties. The benefit of liabilities assumed by the purchaser in excess of assets sold in the amount of \$1,142 was recorded as additional paid-in capital.

### LIQUIDITY AND CAPITAL RESOURCES

#### OVERVIEW

In June 2001, we purchased four new businesses and began operations as a consolidated holding company with multiple operating subsidiaries. In the period since June 2001, we have incurred losses and reductions in our equity. During this period we have financed our losses and have been able to refinance certain third-party obligations with DC Investments, LLC and its subsidiary, Fair Holdings, and other third parties. Our borrowings from Fair Holdings have been on terms that may not have been available from other sources. As of April 30, 2004, our total debt outstanding to DC Investments and Fair Holdings was \$16,792.

We are continuing to address our liquidity and working capital through various means including operational changes and financing matters which are discussed below. During the period these plans are put in place, we have continued to receive financing, and have in place arrangements to receive additional financial support, from Fair Holdings, if necessary.

#### WORKING CAPITAL

Our businesses are working capital intensive and require funding for purchases of production inventory, capital expenditures and expansion and upgrading of facilities. Each of our subsidiaries have separate revolving credit agreements and term loan borrowings through which the subsidiary finances its operations together with cash generated from operations. Our working capital position (current assets over current liabilities) was negative at April 30, 2004 by \$3,198. At October 31, 2003, our working capital position was positive by \$6,045. The decrease in working capital is primarily attributable to a balloon payment on our coach group debt of approximately \$3,800 that is due in December 2004 and reclassification of approximately \$4,000 of debt under revolving credit lines that are due for renewal in November 2004. Other unfavorable changes include increases in accounts payable.

## WORKING CAPITAL, CONTINUED

We continue to address liquidity and working capital issues in a number of ways. At April 30, 2004, net cash used in continuing operations was \$1,501 compared to \$2,549 in 2003. The use of cash and working capital was primarily related to operating losses and business seasonality. In 2004, we expect our operations to generate positive cash and increase our overall working capital through improved operations as follows:

- o We continue to look for ways to strengthen our liquidity, equity and working capital through ongoing evaluations of merger and acquisition candidates.
- o Discontinuing the cargo trailer discounting program that ended in July 2003 with the introduction of a new product line to replace the need to provide discounts to maintain market share. The new product line has a competitive price, while providing gross profits at historic levels.
- o Cost reduction and management initiatives for raw materials in the trailer and related transportation manufacturing segment with the implementation of alternative materials and additional discounts through volume purchasing.
- o Implementation of the new fine grind production process in the butyl rubber reclaiming segment. The new process will maximize the use of the existing raw materials in the existing butyl reclaim production and also provide potential additional production of natural rubber.
- o Capitalize on the trailer production line put in place in the fourth quarter of 2002 that provides a new product line to the existing customers of Danzer. This production line and related sales effort have allowed us to enter a new market along the East coast of the U.S. Our ability to capitalize on this opportunity will be a determining factor on our ability to reduce this operation's use of working capital resources. Management will continue to evaluate the operations on a continuous basis.
- o We secured an additional financial commitment from Fair Holdings to provide, as needed, additional borrowings under a \$15,000 line of credit agreement, which expires on January 1, 2007. Currently, approximately \$7,186 is available to us under the agreement.
- o We are actively working to refinance our current maturities on a long-term basis. Approximately \$7,800 of the current maturities of long term debt is expected to be refinanced during fiscal 2004.

Management believes the steps taken to improve our operations will positively impact our liquidity and working capital for fiscal 2004. However, success is dependent on our ability to restore gross profits and capitalize on potential new markets in the trailer and related transportation manufacturing segment, obtain consistent material supply in the butyl rubber reclaiming segment and continue to grow the coach leasing segment. If our operating results are less than expected, the increased commitment from Fair Holdings will provide additional liquidity in 2004.

## FINANCIAL COVENANT WAIVERS

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Significant financial covenants in our credit agreements are the maintenance of minimum ratios, levels of earnings to funded debt and fixed charge coverage rate. We did not meet requirements and covenants in certain debt agreements. At April 30, 2004, United had violated financial covenants with Huntington Capital Investment Company. Huntington Capital Investment Company waived their covenant violations and we are currently in discussions regarding modifications to the covenants.

US Rubber Reclaiming, Inc. did not meet its fixed charge coverage ratio covenant with PNC Bank. PNC waived their covenant and are currently in process of modifying the covenants and amending the loan agreement.

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### FUNDS AVAILABILITY

On a consolidated basis, as of April 30, 2004, the Company had approximately \$561 of cash and cash equivalents. Danzer Industries, U.S. Rubber, United and Obsidian Enterprises each have revolving credit lines available for working capital at each individual entity. Borrowings under the credit facilities are available to the lesser of the maximum amount or the borrowing base as defined in the credit agreement. At April 30, 2004, additional current availability under these credit lines and maximum availability if supported by their individual borrowing base are:

Company	Current Availability	Maximum Availability
Danzer Industries	\$ 28	\$ 28
U.S. Rubber	--	--
United	--	--
Obsidian Enterprises	7,186	7,186

The Company generated negative net cash flow of \$1,501 from operations during the six months ended April 30, 2004. Cash used in operations is primarily due to operating losses and increases in inventories offset by increases in accounts payable. The Company has increased inventories primarily in the trailer and related transportation equipment manufacturing segment. Inventories were increased primarily due to the limited availability of freight carriers to deliver the products. Funding during the period was provided through borrowings on lines of credit and from related parties.

### GUARANTEES OF PARTNERS

We have an agreement with Partners that gives us the right to mandate a capital contribution from the Partners if the lenders to U.S. Rubber or United were to declare a default. In either of those events, the Company has the right to enforce a capital contribution agreement with Partners up to \$1,370 on U.S. Rubber and \$1,000 on United to fund the respective subsidiary's shortfall. These payments, if any, would be applied directly to reduce the respective subsidiary's debt obligations to the lender.

### CASH FLOWS

Cash flow and liquidity are discussed further below, and the footnotes to our financial statements discuss cash flow, liquidity and the current classification of debt.



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We also have a commercial commitment as described below:

Other Commercial Commitment	Total Amount Committed	Outstanding at April 30, 2004	Date of Expiration
Line of credit, related party	\$ 1,500	\$ 1,472	April 1, 2006
Line of credit	4,000	4,000	February 1, 2005
Line of credit	4,000	2,172	October 1, 2005
Line of credit, related party	15,000	7,814	January 9, 2007

The Company's net cash used in operations for the six months ended April 30, 2004 was \$1,501. This is comprised of a loss from continuing operations of \$5,132, offset by non-cash changes as follows: depreciation and amortization of \$1,563, accretion of interest expense of \$137, minority interest of \$24 and the extension of stock options of \$40. In addition, the Company had increases in accounts receivable of \$269, inventories of \$629, and accounts payable of \$2,725, a decrease in accrued expenses and customer deposits of \$172, and decreases in other assets of \$212.

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Net cash flow provided from financing activities for the six months ended April 30, 2004 was \$1,481. This is comprised of borrowings of long-term debt and net borrowings of short-term debt of \$358 and borrowings from related parties of \$2,410, offset by principal repayments of long-term debt of \$1,287.

Cash flow used in investing activities for the six months ended April 30, 2004 was \$567. This is comprised of purchases of equipment of \$627 net of proceeds on sale of equipment of \$60.

The total decrease in cash is summarized as follows:

	Six Months Ended	
	April 30, 2004	April 30, 2003
Net cash used in operations	\$ (1,501)	\$ (2,596)
Net cash used in investing activities	(567)	(296)
Net cash provided by financing activities	1,481	2,760
Net cash provided by (used in) discontinued operations	--	(41)
Decrease in cash and cash equivalents	\$ (587)	\$ (173)

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### CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are summarized in Note 2 to the consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended October 31, 2003 and describe the significant accounting policies and methods used in the preparation of the consolidated financial statements. Some of the most critical policies are also discussed below.

As a matter of policy, we review our major assets for impairment. Our major operating assets are accounts receivable, inventory, intangible assets and property and equipment. We have not historically experienced significant bad debts expense, although the filing of Chapter 11 bankruptcy during 2002 of a customer resulted in a bad debt charge of \$379. We believe our reserve for doubtful accounts of \$506 should be adequate for any exposure to loss in our April 30, 2004 accounts receivable. We have also established reserves for slow-moving and obsolete inventories and believe the reserve of \$307 is adequate. We depreciate our property and equipment and amortize intangible assets (except for goodwill) over their estimated useful lives. Property and equipment is reviewed for impairment when events and circumstances indicate potential impairment factors are present. In assessing the recoverability of the Company's property and equipment, the Company must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets in future periods. Any such resulting impairment charges could be material to the Company's results of operations.

Goodwill and intangibles are reviewed annually for impairment as of the first day of the fourth quarter or more frequently when events and circumstances indicate potential impairment factors are present. The realization of the goodwill of \$5,784 is primarily dependent on the future operations of the operating entity whether the goodwill is allocated (at United). Historical operating results, current product demand and estimated future results indicate the results of operations at United should be adequate to continue to realize this amount. However, future results may not meet expectations due to economic or other factors, and failure to meet expectations may result in the goodwill not being fully realizable and accordingly result in impairment charges which could be material to the Company's operating results.

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The initial cost of coaches acquired is depreciated over a straight-line basis over 15 years to a salvage value of 38% of original cost. Subsequent enhancements and refurbishments of coaches are depreciated over five years using the straight-line method. The age of coaches in our fleet range from less than one year to ten years, with an average age of approximately four years. Actual value of coaches after 15 years is dependent on several factors including the level of maintenance and the market conditions at the time of disposal. We have not disposed of a material number of coaches, and our estimate of depreciation is based on information other than actual disposal experience. Accordingly, we continue to evaluate our estimates with respect to the actual depreciation of such vehicles based on market conditions and our experience in disposals when they occur. Should future factors indicate the current depreciation policy is not adequate, we will adjust the depreciation rates, and such adjustments may have an adverse impact on our results of operations.

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In conjunction with financing of the acquisition of United, the Company issued 386,206 shares of Series C preferred stock to Huntington Capital Investment Corporation ("Huntington"). On March 12, 2004, these shares were converted to 154,482 shares of common stock. The conversion did not effect the repurchase option described below. The note purchase agreement includes a provision that gives Huntington the option to require the Company to repurchase these shares at 90% of market value upon the earlier of: a) fifth anniversary of issuance of such shares, b) default under the subordinated debt agreement, c) other factors related to a sale of substantially all assets of the Company as defined in the agreement. Increases in the value of the Company's stock will result in a corresponding increase to this repurchase requirement. Accordingly, a substantial increase in stock price at the repurchase date may have an adverse impact on the Company's liquidity. At April 30, 2004, the Company had violated certain financial covenants defined in the subordinated debt agreement with Huntington. The Company received a waiver of these violations as of April 30, 2004.

### ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk related to interest rate changes. See the discussion of market risk in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2, which discussion is incorporated by reference herein.

### ITEM 4 CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management recognizes that, because the design of any system of controls is based in part upon certain assumptions about the likelihood of future events and also is subject to other inherent limitations, any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired objectives. The Company's management believes, however, that the Company's disclosure controls and procedures provide reasonable assurance that the disclosure controls and procedures are effective.

The Company has carried out as of April 30, 2004, an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. Effective November 1, 2003, the Company implemented an enterprise wide, integrated accounting system that replaced the separate accounting systems previously maintained by the several subsidiaries and since that date has implemented an enhanced segregation of duties of various accounting personnel and plans to physically inventory our United Expressline operations on a quarterly basis. Management will continue to evaluate whether additional steps are needed to improve our financial infrastructure. There have been no other significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the April 30, 2004 evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is party to ordinary litigation incidental to its business. No current pending litigation is expected to have a material adverse effect on results of operations, financial condition or cash flows.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) At the Company's Annual Meeting of Stockholders held on December 3, 2003, the stockholders approved amendments to the Company's Certificate of Incorporation to implement a 50-to-1 reverse stock split and a reduction of the Company's authorized shares of Common Stock from 40,000,000 to 10,000,000. Holders of fractional shares subsequent to the reverse stock split received cash payments for their fractional shares. On February 13, 2004, the Company filed the Certificate of Amendment amending the Fourth Article of the Certificate of Incorporation with the Delaware Secretary of State and the Certificate of Amendment became effective on February 16, 2004.

(b) Not applicable

(c) As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2003 (the "2003 10-K"), which disclosure is incorporated herein by reference, on February 9, 2004, the Company received an extension of the requirement to provide audited financial statements to debenture holders. In exchange for this extension, the Company issued warrants to each of the debenture holders to purchase up to 8,000 shares of the Company's common stock at an exercise price of \$10.00 per share. These warrants expire February 9, 2007. The issuances of the warrants were made in reliance upon the exemption from the registration provisions of the Securities Act of 1933, as amended, set forth in Section 4(2) thereof, for transactions by an issuer not involving any public offering and other applicable exemptions. Copies of the February 9, 2004 warrant agreements were attached as exhibits to the 2003 Form 10-K.

As disclosed in a Current Report on Form 8-K filed on May 14, 2004, which disclosure is incorporated herein by reference, on April 30, 2004, the Company issued 170,451 shares of its Common Stock as partial consideration for the acquisition of all of the outstanding shares of Classic Manufacturing, Inc., a Michigan-based manufacturer of trailers. The issuances of the shares were made in reliance upon the exemption from the registration provisions of the Securities Act of 1933, as amended, set forth in Section 4(2) thereof, for transactions by an issuer not involving any public offering and other applicable exemptions.

(d) Not applicable.

(e) The following table presents information on the Company's purchases of equity securities during the quarter ended April 30, 2004.

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Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs
February 1, 2004- February 29, 2004*	328	\$12.09	N/A
March 1, 2004 -March 31, 2004	--	--	N/A
April 1, 2004 to April 30, 2004	--	--	N/A
Total	328	\$12.09	N/A

\*On February 16, 2004, the Company repurchased fractional share interests in connection with a 50-to-1 reverse stock split.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS

The exhibits filed as part of this Form 10-Q are listed in the Exhibit Index, which is incorporated herein by reference.

REPORTS ON FORM 8-K

None.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OBSIDIAN ENTERPRISES, INC.

June 21, 2004

By: /s/ Timothy S. Durham

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Date

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Timothy S. Durham, Chairman and  
Chief Executive Officer

June 21, 2004

By: /s/ Rick D. Snow

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Date

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Rick D. Snow, Executive Vice  
President/Chief Financial Officer

## EXHIBIT INDEX

Exhibit No.	Description	
3.1	Certificate of Amendment (effective February 16, 2004)	Attached
10.1	Stock Purchase Warrant, dated February 9, 2004, issued by Obsidian Enterprises, Inc. to HSBC Global Custody Nominee (UK) Limited, FBO BFS US Special Opportunities Trust PLC.	Incorporated by Exhibit 10.74 Annual Report the fiscal year 31, 2003.
10.2	Stock Purchase Warrant, dated February 9, 2004, issued by Obsidian Enterprises, Inc. to Frost National Bank, Custodian, FBO Renaissance US Growth Investment Trust PLC, Trust No. W00740100.	Incorporated by Exhibit 10.75 Annual Report the fiscal year 31, 2003.
31.1	Certification of Timothy S. Durham.	Attached
31.2	Certification of Rick D. Snow.	Attached
32.1	Statement Regarding Certification Pursuant to 18 U.S.C.ss.	Attached

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1350 by Timothy S. Durham, Chief Executive Officer.

32.2

Statement Regarding Certification Pursuant to 18 U.S.C.ss. Attached  
1350 by Rick D. Snow, Chief Financial Officer.