

AMERICAN COMMERCE SOLUTIONS Inc
Form 10QSB
January 16, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended November 30, 2006

.. TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from to

Commission file number: 33-98682

American Commerce Solutions, Inc.

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

Delaware
(State or other jurisdiction of
incorporation or organization)

1400 Chamber Dr., Bartow, Florida 33830

(Address of principal executive offices)

(863) 533-0326

05-0460102
(IRS Employer

Identification No.)

Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10QSB

(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. YES NO

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

There were 239,017,317 shares of the Registrant's \$.002 par value common stock outstanding as of November 30, 2006

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

Table of Contents

Table of Contents

American Commerce Solutions, Inc.

Contents

| | |
|--|----|
| <u>Part I. Financial Information</u> | 3 |
| <u>Item 1. Consolidated Financial Statements</u> | 3 |
| <u>Item 2. Management's Discussion & Analysis</u> | 11 |
| <u>Item 3. Controls and Procedures</u> | 15 |
| <u>Part II. Other Information</u> | 15 |
| <u>Item 1. Legal Proceedings</u> | 15 |
| <u>Item 2. Changes in Securities</u> | 15 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 15 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 15 |
| <u>Item 5. Other Information</u> | 15 |
| <u>Item 6. Exhibits and Reports on Form 8-K</u> | 16 |
| <u>Signatures</u> | 16 |

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Financial Statements

American Commerce Solutions, Inc. and Subsidiaries

As of November 30, 2006 and for the

Three and Nine Months Ended November 30, 2006 and 2005

(unaudited)

Page 3

Table of Contents

American Commerce Solutions, Inc. and Subsidiaries

Consolidated Financial Statements

As of November 30, 2006 and for the

Three and Nine Months Ended November 30, 2006 and 2005

(unaudited)

Contents

Consolidated Financial Statements:

Consolidated Balance Sheet

5

Consolidated Statements of Operations

6

Consolidated Statements of Cash Flows

7

Notes to Consolidated Financial Statements

8

Page 4

Table of Contents

American Commerce Solutions, Inc. and Subsidiaries

Consolidated Balance Sheet

November 30, 2006

*(unaudited)***Assets**

Current assets:

| | |
|--|-----------|
| Cash | \$ 16,896 |
| Accounts receivable, net of allowance of \$4,514 | 24,773 |
| Accounts receivable, factored | 45,005 |
| Inventory | 203,658 |
| Other receivables | 84,602 |
| Other current assets | 46,502 |

| | |
|----------------------|---------|
| Total current assets | 421,438 |
|----------------------|---------|

| | |
|--|-----------|
| Property and equipment, net of depreciation of \$2,153,583 | 4,955,206 |
|--|-----------|

Other assets:

| | |
|---|--------|
| Intangible assets, net of accumulated amortization of \$119,278 | 70,722 |
|---|--------|

| | |
|--|--------------|
| | \$ 5,447,366 |
|--|--------------|

Liabilities and Stockholders Equity

Current liabilities:

| | |
|---|-----------|
| Bank overdraft | \$ 11,310 |
| Current portion of notes payable | 617,198 |
| Current portion of notes payable, related parties | 262,085 |
| Accounts payable | 327,683 |
| Accrued expenses | 175,341 |
| Accrued interest | 145,182 |
| Due to stockholders | 774,610 |
| Deferred revenue | 109,906 |

| | |
|---------------------------|-----------|
| Total current liabilities | 2,423,315 |
|---------------------------|-----------|

| | |
|---------------------------------------|---------|
| Notes payable, net of current portion | 738,179 |
|---------------------------------------|---------|

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 | 3 |
|--|---|

| | |
|--|---|
| 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; 239,539,317 shares issued; 239,017,317 shares outstanding | 479,080 |
|--|---------|

| | |
|----------------------------|------------|
| Additional paid-in capital | 18,955,911 |
|----------------------------|------------|

| | |
|-------------------------------|----------|
| Stock subscription receivable | (10,000) |
|-------------------------------|----------|

| | |
|-------------------------|-----------|
| Treasury stock, at cost | (265,526) |
|-------------------------|-----------|

| | |
|---------------------|--------------|
| Accumulated deficit | (16,843,656) |
|---------------------|--------------|

| | |
|--|----------|
| Loan costs from issuance of common stock | (29,940) |
|--|----------|

| | |
|---------------------------|-----------|
| Total stockholders equity | 2,285,872 |
|---------------------------|-----------|

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

Table of Contents

American Commerce Solutions, Inc. and Subsidiaries

Consolidated Statements of Operations

(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------|-------------------|--------------|
| | November 30, | | November 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Net sales | \$ 556,205 | \$ 491,621 | \$ 1,749,916 | \$ 1,811,970 |
| Cost of goods sold | 359,736 | 294,523 | 1,129,147 | 1,187,400 |
| Gross profit | 196,469 | 197,098 | 620,769 | 624,570 |
| Selling, general and administrative expenses | 543,969 | 466,663 | 1,608,722 | 1,635,371 |
| (Loss) from operations | (347,500) | (269,565) | (987,953) | (1,010,801) |
| Other income (expense) | 1,605 | 25,067 | 16,120 | 321,710 |
| Gain on forgiveness of debt | | 93,336 | | 191,646 |
| Interest expense | (33,876) | (37,740) | (107,523) | (118,381) |
| Total other income (expense) | (32,271) | 80,663 | (91,403) | 394,975 |
| Net loss | \$ (379,771) | \$ (188,902) | \$ (1,079,356) | \$ (615,826) |
| Basic and Diluted net loss per common share | \$ (.00) | \$ (.00) | \$ (.00) | \$ (.00) |
| Basic and Diluted weighted average number of common shares outstanding | 238,321,417 | 226,136,679 | 237,314,800 | 216,617,916 |

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

Table of Contents

American Commerce Solutions, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited)

| | Nine Months Ended November 30, | |
|---|---|--------------|
| | 2006 | 2005 |
| Operating activities: | | |
| Net loss | \$ (1,079,356) | \$ (615,826) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | 322,297 | 329,448 |
| Stock issued for services | 100,445 | 17,000 |
| Options issued to consultants and employees | | 27,000 |
| Gain on sale of equipment | (4,500) | |
| Gain on forgiveness of debt | | (191,646) |
| Gain on write down of debt | | (15,000) |
| (Decrease) increase in allowance for doubtful accounts | (670) | 4,850 |
| (Increase) decrease in: | | |
| Accounts receivables | 6,033 | 50,314 |
| Inventory | (55,124) | (22,587) |
| Other receivables and other assets | 52,722 | 260,505 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 100,779 | 4,140 |
| Deferred income | 68,348 | (3,769) |
| Net cash used by operating activities | (489,026) | (155,571) |
| Investing activities: | | |
| Decrease in other receivables | 25,845 | |
| Payments on notes receivable | 239,016 | |
| Proceeds from sale of equipment | 4,500 | |
| Acquisition of property and equipment | (21,160) | (61,428) |
| Net cash provided (used) by investing activities | 248,201 | (61,428) |
| Financing activities: | | |
| Increase in checks drawn in excess of bank balance | 11,310 | 616 |
| Increase (decrease) in due from factor | (2,593) | (11,461) |
| Proceeds from notes payable and long-term debt | 133,208 | 78,990 |
| Principal payments on notes payable and capital leases | (90,136) | (163,060) |
| Increase in advances from stockholders | 187,800 | 215,250 |
| Exercise of stock options and warrants | | 72,301 |
| Net cash provided by financing activities | 239,589 | 192,636 |
| Net decrease in cash | (1,236) | (24,363) |
| Cash, beginning of period | 18,132 | 63,506 |
| Cash, end of period | \$ 16,896 | \$ 39,143 |

Supplemental disclosures of cash flow information and non-cash investing and financing activities:

Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10QSB

Cash paid during the period for interest \$ 85,229 \$ 228,191

During the nine months ended November 30, 2006, the Company issued 9,650,136 shares of common stock to a related party and related company, valued at \$119,758 in exchange for guarantees of a note payable. As of November 30, 2006, \$89,819 of these guaranty fees have been amortized.

During the nine months ended November 30, 2006, the Company wrote off \$68,236 of fully depreciated property and equipment.

During the nine months ended November 30, 2006 and 2005, the Company increased notes payable by \$18,451 and \$18,546, respectively for an accrual of interest.

During the nine months ended November 30, 2006, the Company issued 340,095 shares of common stock to a related party for accrued expenses valued at \$10,203.

During the nine months ended November 30, 2006, the Company issued 1,376,671 shares of common stock to a third party in exchange for accepting a note payable assignment with a fair value of \$18,447.

During the nine months ended November 30, 2005, the Company assigned \$252,756 of debt and related accrued interest to a related party in exchange for 12,637,772 shares of common stock. Also, the Company converted \$330,148 of debt and related accrued interest to a related party to 16,507,417 shares of common stock.

Table of Contents

During the nine months ended November 30, 2005, the Company issued 5,000,000 shares of common stock in exchange for a consulting agreement valued at \$100,000. The Company issued a note receivable of \$34,000 upon the exercise of 2,000,000 options by a consultant.

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

Table of Contents

American Commerce Solutions, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of November 30, 2006 and for the

Three and Nine Months Ended November 30, 2006 and 2005

(unaudited)

1. Background Information

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

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

2. Stock Based Compensation

At November 30, 2006, the Company has two stock-based employee compensation plans, all of which have been approved by the shareholders.

The Company previously applied the intrinsic value method provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations for stock-based compensation. Accordingly, the Company recognized compensation expense of \$27,000 in stock-based employee compensation cost for the nine months ended November 30, 2005, which is reflected in the net loss. As permitted, the Company had previously elected to adopt the disclosure-only provisions of Statement of Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation*.

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

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

The following table reflects the pro forma effect on net loss for the three and nine month periods ended November 30, 2005 as if we had applied the fair value recognition provisions of SFAS 123.

| | Three Months Ended November 31, 2005 | Nine Months Ended November 31, 2005 |
|-----------------------|---|---|
| Net loss, as reported | \$ (188,902) | \$ (615,826) |

Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10QSB

| | | | | |
|---|-----------|------------------|-----------|------------------|
| Deduct: Additional stock based employee compensation expense determined under fair value based methods for all awards, net of taxes | | (0) | | (0) |
| Pro forma net loss | \$ | (188,902) | \$ | (615,826) |
| Net loss per share: | | | | |
| As reported | \$ | (.00) | \$ | (.00) |
| Pro forma | \$ | (.00) | \$ | (.00) |

Table of Contents

3. Going Concern

Our consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred substantial operating losses since inception and has used approximately \$489,000 of cash in operations for the nine months ended November 30, 2006. The Company recorded losses from continuing operations of \$379,771 and \$1,079,356 for the three and nine months ended November 30, 2006, respectively. Current liabilities exceed current assets by \$2,001,877 at November 30, 2006. Additionally, the Company is in default on several notes payable. The ability of the Company to continue as a going concern is dependent upon its ability to reverse negative operating trends, raise additional capital, and obtain debt financing.

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

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

4. Basis of Presentation

In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three and nine month periods ended November 30, 2006 and 2005, (b) the financial position at November 30, 2006, and (c) cash flows for the nine month periods ended November 30, 2006 and 2005, have been made.

The unaudited consolidated financial statements and notes are presented as permitted by Form 10-QSB. Accordingly, certain information and note disclosures normally included in condensed financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes of the Company for the fiscal year ended February 28, 2006. The results of operations for the three and nine month periods ended November 30, 2006 are not necessarily indicative of those to be expected for the entire year.

5. Accounts Receivable, Factored

During the nine months ended November 30, 2006, the Company factored receivables of approximately \$1,092,175. In connection with the factoring agreement, the Company incurred fees of approximately \$12,474 and \$38,474 during the three and nine months ended November 30, 2006, respectively. As of November 30, 2006, certain customers had remitted \$53,289 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 nine months ended November 30, 2006 the Company issued 9,650,136 shares of common stock to a related party and a related company valued at \$119,758 in exchange for a guarantee of a note payable. The Company also issued a related party 340,095 shares of common stock in exchange for the settlement of \$10,203 of liabilities. In addition, the Company issued a total of 1,250,000 shares of common stock to two employees valued at \$10,625 for services rendered. Finally, the Company issued 1,376,671 shares of common stock to a third party in exchange for the assignment of a note payable with a fair value of \$18,447.

During the nine months ended November 30, 2005 the Company issued 5,000,000 shares of common stock for consulting services valued at \$100,000, the Company also issued 12,637,772 shares of common stock in exchange for the assignment of debt and related accrued interest valued at \$252,756 and 16,507,417 shares of common stock to convert related party debt and interest of \$330,148. Also during the nine months ended November 30, 2005, the Company issued 1,000,000 shares of common stock to a related party for services rendered valued at \$17,000.

During the nine months ended November 30, 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.

Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10QSB

During the period ended November 30, 2005, the Company granted 7,000,000 options, respectively, to employees in conjunction with the Employee Stock Incentive Plan, all of which were exercised immediately.

Page 10

Table of Contents**7. Segment Information**

The Company has two reportable segments during 2006 and 2005; manufacturing and fiberglass. Although both of these segments are in the manufacturing industry, they provide different types of products and services and each segment is subject to different marketing, production and technology strategies. Therefore, for the three and nine months ended November 30, 2006 and 2005 the Company has included segment reporting.

For the three months ended November 30, 2006, information regarding operations by segment is as follows:

| | Manufacturing | Fiberglass | Other | Total |
|-------------------------------|----------------------|-------------------|--------------|--------------|
| Revenue | \$ 516,683 | \$ 39,522 | | \$ 556,205 |
| Interest expense | \$ 25,723 | \$ 1,632 | \$ 6,521 | \$ 33,876 |
| Depreciation and amortization | \$ 71,423 | \$ 35,924 | \$ 173 | \$ 107,520 |
| Net loss | \$ (65,666) | \$ (85,708) | \$ (228,397) | \$ (379,771) |

For the three months ended November 30, 2005, information regarding operations by segment is as follows:

| | Manufacturing | Fiberglass | Other | Total |
|-------------------------------|----------------------|-------------------|--------------|--------------|
| Revenue | \$ 472,755 | \$ 18,866 | | \$ 491,621 |
| Interest expense, net | \$ 27,414 | \$ 2,199 | \$ 8,127 | \$ 37,740 |
| Depreciation and amortization | \$ 75,040 | \$ 54,037 | \$ 172 | \$ 129,249 |
| Net loss | \$ (52,987) | \$ (55,346) | \$ (80,569) | \$ (188,902) |

For the nine months ended November 30, 2006, information regarding operations by segment is as follows:

| | Manufacturing | Fiberglass | Other | Total |
|---|----------------------|-------------------|--------------|----------------|
| Revenue | \$ 1,602,197 | \$ 147,719 | | \$ 1,749,916 |
| Interest expense | \$ 81,942 | \$ 6,714 | \$ 18,867 | \$ 107,523 |
| Depreciation and amortization | \$ 214,007 | \$ 107,772 | \$ 518 | \$ 322,297 |
| Net loss | \$ (168,212) | \$ (254,194) | \$ (656,950) | \$ (1,079,356) |
| Property and equipment, net of accumulated depreciation | \$ 4,198,246 | \$ 755,695 | \$ 1,265 | \$ 4,955,206 |
| Segment assets | \$ 4,447,467 | \$ 909,070 | \$ 90,829 | \$ 5,447,366 |

For the nine months ended November 30, 2005, information regarding operations by segment is as follows:

| | Manufacturing | Fiberglass | Other | Total |
|---|----------------------|-------------------|--------------|--------------|
| Revenue | \$ 1,648,808 | \$ 163,162 | | \$ 1,811,970 |
| Interest expense, net | \$ 86,648 | \$ 6,685 | \$ 25,048 | \$ 118,381 |
| Depreciation and amortization | \$ 223,821 | \$ 105,110 | \$ 517 | \$ 329,448 |
| Net income (loss) | \$ 137,085 | \$ (197,790) | \$ (555,121) | \$ (615,826) |
| Property and equipment, net of accumulated depreciation | \$ 4,445,966 | \$ 829,662 | \$ 1,955 | \$ 5,277,583 |
| Segment assets | \$ 4,990,708 | \$ 994,471 | \$ 171,465 | \$ 6,156,644 |

Segment 1, manufacturing, consists of International Machine and Welding, Inc. and derives its revenues from machining operations, sale of parts and service. Segment 2, fiberglass, consists of Chariot Manufacturing Company, Inc. and derives its revenues from the manufacture, sale and service of fiberglass trailers, boats and cars.

PART I - FINANCIAL INFORMATION**ITEM 2. MANAGEMENT'S DISCUSSION & ANALYSIS**

Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10QSB

This FILING contains forward-looking statements. The words anticipated, believe, expect, plan, intend, seek, estimate, project, w and similar expressions are intended to identify forward-looking statements. These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect the Company's current views with respect to future events and financial performance and involve risks and uncertainties, including, without limitation, general economic and business conditions, changes in foreign, political, social, and economic conditions, regulatory initiatives and compliance with

Table of Contents

governmental regulations, the ability to achieve further market penetration and additional customers, and various other matters, many of which are beyond the Company's control. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove to be incorrect, actual results may vary materially and adversely from those ANTICIPATED, believed, estimated, or otherwise indicated. Consequently, all of the forward-looking statements made in this FILING are qualified by these cautionary statements and there can be no assurance of the actual results or developments.

The Company cautions readers that in addition to important factors described elsewhere, the following important facts, among others, sometimes have affected, and in the future could affect, the Company's actual results, and could cause the Company's actual results during 2007 and beyond, to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

This Management's Discussion and Analysis or Plan of Operation presents a review of the consolidated operating results and financial condition of the Company for the three and nine month periods ended November 30, 2006 and 2005. This discussion and analysis is intended to assist in understanding the financial condition and results of operation of the Company and its subsidiaries. This section should be read in conjunction with the consolidated financial statements and the related notes.

RESULTS OF OPERATIONS

The Company owns two subsidiaries that operated in the manufacturing segment and the fiberglass segment during the three and nine months ended November 30, 2006 and 2005. To facilitate the readers understanding of the Company's financial performance, this discussion and analysis is presented on a segment basis.

MANUFACTURING SUBSIDIARY

The manufacturing subsidiary, International Machine and Welding, Inc., generates its revenues from three divisions. Division 1 provides specialized machining and repair services to heavy industry and original equipment manufacturers. Division 2 provides repair and rebuild services on heavy equipment used in construction and mining as well as sales of used equipment. Division 3 provides parts sales for heavy equipment directly to the customer. The primary market of this segment is the majority of central and south Florida with parts sales expanding its market internationally. The current operations can be significantly expanded using the 38,000 square foot structure owned by International Machine and Welding, Inc.

FIBERGLASS SUBSIDIARY

Chariot Manufacturing Company, Inc. manufactures a variety of fiberglass parts, as well as, motorcycle trailers with fiberglass bodies. These trailers are sold both on the retail and dealer levels. The company also provides non warranty repairs, modification of existing Chariot Trailers.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2006 AND 2005.

General

The Company's consolidated net sales increased to \$556,205 for the three months ended November 30, 2006, an increase of \$64,584 or 13%, from \$491,621 for the three months ended November 31, 2005. This increase was mainly due to a new and effective sales effort with our existing customer base.

Gross profit for the consolidated operations decreased to \$196,469 for the three months ended November 30, 2006 from \$197,098 for the three months ended November 30, 2005. Gross profit as a percentage of sales was 35% and 40% for the three month periods ended November 30, 2006 and 2005, respectively. The decrease in gross profit as a percentage of sales was due to losses in the fiberglass segment while retooling continued.

Consolidated interest expense, net for the three months ended November 30, 2006 was \$33,876 as compared to \$37,740 for same period in 2005 for a decrease of \$3,864 or 10%. This decrease in interest expense is due to the settlement and payments on long-term debt.

Selling, general and administrative expenses increased to \$543,969 for the three months ended November 30, 2006 as compared to \$466,663 for the three months ended November 30, 2005, an increase of \$77,306 or 17%. The increase was primarily due to the increase in executive salaries.

Table of Contents

The Company incurred a consolidated net loss of \$379,771 for the three months ended November 30, 2006 compared to a loss of \$188,902 for the three months ended November 30, 2005. The increase in the consolidated net loss is primarily due the increase in salaries of senior executives and the additional costs of retooling in the fiberglass subsidiary. As a result of the continued losses, the Independent Auditors have questioned the Company's continuation as a going concern.

Manufacturing Subsidiary

The manufacturing operation, International Machine and Welding, Inc. provided net sales of \$516,683 for the three months ended November 30, 2006 compared to \$472,755 for the three months ended November 30, 2005. The machining operations provided \$174,532 or 34% of net sales with parts and service providing \$342,151 or 66% of net sales for the three months ended November 30, 2006 as compared to machining operations contributing \$194,020 or 41% of net sales with parts and service providing \$278,735 or 59% of net sales for the three months ended November 30, 2005. The overall increase in net sales is due to successful sales effort within the existing customer base.

Gross profit from the International Machine and Welding, Inc. was \$204,138 for the three months ended November 30, 2006 compared to \$195,619 for the same period in 2005 providing gross profit margins of 40% and 41%, respectively.

Selling, general and administrative expenses for International Machine and Welding, Inc. were \$244,081 for the three months ended November 30, 2006 compared to \$224,548 for the three months ended November 30, 2005. The increase in selling, general and administrative expenses is due to an overall increase in payroll and payroll related expenses.

Interest expense, net was \$25,723 for the three months ended November 30, 2006 compared to \$27,414 for the same period ended 2005. The decrease in interest expense, net is due to the Company's payments on notes payable during first and second quarter of 2006.

The Company does not have discrete financial information on each of the three manufacturing divisions, nor does the Company make decisions on the divisions separately; therefore they are not reported as segments.

Fiberglass Subsidiary

The fiberglass manufacturing operation, Chariot Manufacturing Company, Inc. provided net sales of \$39,522 for the three months ended November 30, 2006 as compared to \$18,866 for the same period in 2005. The increase in net sales is due to increased production of finished goods while retooling was being completed.

Gross profit from Chariot was \$(7,669) for the three months ended November 30, 2006 providing a negative gross profit margin of 19% as compared to \$1,479 providing a gross profit margin of 8% for the same period in 2005. The decrease in gross profit and the related gross profit margin was due to the additional costs incurred during the retooling.

Selling, general and administrative expenses were \$78,012 for the three months ended November 30, 2006 as compared to \$51,339 for the same period in 2005. The increase in selling, general and administrative expenses was due to an increase in management and sales salaries and related payroll expenses.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED NOVEMBER 30, 2006 AND 2005.

General

The Company's consolidated net sales decreased to \$1,749,916 for the nine months ended November 30, 2006, a decrease of \$62,054 or 3%, from \$1,811,970 for the nine months ended November 30, 2005. This decrease was mainly due to a decrease in sales of the manufacturing division.

Gross profit for the consolidated operations decreased to \$620,769 for the nine months ended November 30, 2006 from \$624,570 for the nine months ended November 31, 2005. Gross profit as a percentage of sales was 35% and 34% for the nine month periods ended November 30, 2006 and 2005, respectively. The increase in gross profit margin was due to a higher gross profit margin related to International Machine and Welding, Inc.'s product mix.

Consolidated interest expense, net for the nine months ended November 30, 2006 was \$107,523 as compared to \$118,381 for same period in 2005 for a decrease of \$10,858 or 9%. The decrease in interest expense, net is due to the Company's payments on notes payable during first and

Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10QSB

second quarter of 2006.

Selling, general and administrative expenses decreased to \$1,608,722 for the nine months ended November 30, 2006 as compared to \$1,635,371 for the nine months ended November 30, 2005, a decrease of \$27,009 or 2%. The decrease was primarily due to a decrease in consulting expenses, professional fees for legal services and the Company decreasing the amount of options issued under the Employee Stock Incentive Plan for 2004 and the Non Qualifying Stock Option Plan.

The Company incurred a net consolidated loss of \$1,079,356 for the nine months ended November 30, 2006 compared to a loss of \$615,826 for the nine months ended November 30, 2005. The increase in the consolidated net loss is primarily due to the limited revenue of the manufacturing segment during the nine months ended November 30, 2006. As a result of the continued losses, the Independent Auditors have questioned the Company's continuation as a going concern.

Manufacturing Subsidiary

The manufacturing operation, International Machine and Welding, Inc. provided net sales of \$1,602,197 for the nine months ended November 30, 2006 compared to \$1,648,808 for the nine months ended November 31, 2005. The machining operations provided \$547,736 or 34% of net sales with parts and service providing \$1,054,461 or 66% of net sales for the nine months ended November 30, 2006 as compared to machining operations contributing \$720,850 or 44% of net sales with parts and service providing \$927,958 or 56% of net sales for the nine months ended November 31, 2005. The overall decrease in net sales is due to a temporary decrease in sales of approximately \$46,611 to one client while they undergo renovations and the consolidation of two other clients.

Gross profit from the International Machine and Welding, Inc. was \$631,830 for the nine months ended November 30, 2006 compared to \$603,138 for the same period in 2005 providing gross profit margins of 39% and 36%, respectively. The overall increase in gross profit and gross profit margin is due to a change in the product mix to increase sales with a greater contribution to the profit margin than in the prior quarter.

Selling, general and administrative expenses for International Machine and Welding, Inc. were \$728,087 for the nine months ended November 30, 2006 compared to \$681,358 for the nine months ended November 30, 2005. The increase in selling, general and administrative expenses is due to an overall increase in payroll and payroll related expenses.

Interest expense, net was \$81,942 for the nine months ended November 30, 2006 compared to \$86,648 for the same period ended 2005.

The Company does not have discrete financial information on each of the three manufacturing divisions, nor does the Company make decisions on the divisions separately; therefore they are not reported as segments.

Fiberglass Subsidiary

The fiberglass manufacturing operation, Chariot Manufacturing Company, Inc. provided net sales of \$147,719 for the nine months ended November 30, 2006 as compared to \$163,162 for the same period in 2005. The decrease in net sales is due to reduced production of finished goods while retooling was being accomplished during the first quarter.

Gross profit from Chariot was (\$11,061) for the nine months ended November 30, 2006 providing a gross profit margin of (7%) as compared to \$21,432 providing a gross profit margin of 13% for the same period in 2005. The decrease in gross profit and the related gross profit margin was due to a decrease in sales over the prior year with a static or increased cost of goods sold. The decrease in sales was due to the plant being closed for a portion of period ended November 30, 2006.

Selling, general and administrative expenses were \$241,099 for the nine months ended November 30, 2006 as compared to \$222,816 for the same period in 2005. The increase in selling, general and administrative expenses was mainly due to an increase in management and sales salaries and related payroll expenses.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended November 30, 2006 and 2005, the Company used net cash from operating activities of \$489,026 and \$155,571, respectively. This increase in cash used by operating activities is primarily due to an increase in inventory and the overall net loss, which was partially offset by a decrease in accounts payable, accrued expenses and deferred revenue during the nine months ended November 30, 2006 as compared to the same period in 2005.

During the nine months ended November 30, 2006 and 2005, the Company provided (used) cash for investing activities of \$248,201 and (\$61,428), respectively. The increase in net cash provided by investing activities is primarily due to the cash received from the collection of a note receivable during the nine months ended November 30, 2006.

During the nine months ended November 30, 2006 and 2005, the Company provided cash from financing activities of \$239,589 and \$192,636, respectively. The increase in net cash provided from financing activities is due to the increase in advances from stockholders and proceeds from issuance of notes payable during the nine months ended November 30, 2006.

Cash flows from operations and loans or the sale of equity provided for working capital needs and principal payments on long-term debt through November 30, 2006. As of November 30, 2006, working capital deficit was \$2,001,877. To the extent that the cash flows from operations are insufficient to finance the Company's anticipated growth, or its other liquidity and capital requirements during the next twelve months, the Company will seek additional financing from alternative sources including bank loans or other bank financing arrangements, other debt financing, the sale of equity securities (including those issuable pursuant to the exercise of outstanding warrants and options), or other financing arrangements. However, there can be no assurance that any such financing will be available and, if available, that it will be available on terms favorable or acceptable to the Company.

Management has revised its business strategy to include the manufacture of additional products. Although management has reduced debt, new financing to finance operations and to facilitate additional production is still being sought. 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.

Seasonality

The diversity of operations in the Manufacturing Segment protects it from seasonal trends except in the sales of agricultural processing equipment whereby the majority of the revenue is generated while the processors await the next harvest.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company has prepared the accompanying unaudited consolidated financial statements in conformity with accounting principles generally accepted in the United States for interim financial information. All intercompany transactions have been eliminated in consolidation. The preparation of consolidated unaudited financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated unaudited financial statements and the reported amounts of revenues and expenses during the reporting period. The Company reviews its estimates, including but not limited to, recoverability of long-lived assets, recoverability of prepaid expenses and allowance for doubtful accounts, on a regular basis and makes adjustments based on historical experiences and existing and expected future conditions. These evaluations are performed and adjustments are made as information is available. Management believes that these estimates are reasonable; however, actual results could differ from these estimates.

We believe that the following critical policies affect our more significant judgments and estimates used in preparation of our consolidated unaudited financial statements.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We base our estimate on an analysis of the Company's prior collection experience, customer credit worthiness, and current economic trends. If the financial condition of our customers were to deteriorate, additional allowances may be required.

We value our inventories at the lower of cost or market. Cost is determined on a standard cost basis that approximates the first-in, first-out method; market is determined based on net realizable value. We write down inventory balances for estimated obsolescence or unmarketable inventory equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10QSB

We value our property and equipment at cost. Amortization and depreciation are calculated using the straight-line and accelerated methods of accounting over the estimated useful lives of the assets. Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Fair value estimates used in preparation of the consolidated unaudited financial statements are based upon certain market assumptions and pertinent information available to management. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, accounts receivable, accounts payable, and accrued expenses. Fair values were assumed to approximate carrying values for these financial instruments since they are short-term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand. The fair value of the Company's notes payable is estimated based upon the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

Table of Contents

ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of November 30, 2006. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission (SEC) reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to American Commerce Solutions, Inc., and was made known to them by others within those entities, particularly during the period when this report was being prepared.

There were no significant changes in the Company s Internal Controls or in other factors that have materially affected, or are reasonably likely to affect, Internal Controls over financial reporting during the most recent fiscal year.

EXHIBITS

Exhibits included herewith are:

31.1 Certification of the Chief Financial Officer

31.2 Certification of the Chief Executive Officer

32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

During the three months ended November 30, 2006, there was no modification of any instruments defining the rights of holders of the Company s common stock and no limitation or qualification of the rights evidenced by the Company s common stock as a result of the issuance of any other class of securities or the modification thereof.

The following shares of stock were issued without registration under the Securities and Exchange Act of 1933 in reliance upon Section 4(2) of the Securities and Exchange Commission there under.

On September 1, 2006, 1,376,671 shares of common stock valued at \$18,447, were issued to a third party in exchange for the assignment of a note payable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company has defaulted on a total of \$777,783 of notes payable. The amount of principal payments in arrears was \$614,368, with an additional amount of \$163,415 of interest due at November 30, 2006. These defaults are the result of a failure to pay in accordance with the terms agreed.

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

During the three month period ended November 30, 2006, the Company did not submit any matters to a vote of its security holders.

ITEM 5. OTHER MATTERS

None

Table of Contents

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 31.1 SECTION 302 CEO CERTIFICATION
- 31.2 SECTION 302 CFO CERTIFICATION
- 32 CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBAENES-OXLEY ACT OF 2002

(b) Reports on Form 8-K None

(c) S-8 Filings included by reference

(d) Employee Stock Option Plan and Non Employee Directors and Consultants Retainer Plan for 2004 included by reference
SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN COMMERCE SOLUTIONS, INC.

Date: January 12, 2007

By: /s/ Daniel L. Hefner
Daniel L. Hefner,

CEO

Date: January 12, 2007

By: /s/ Frank D. Puissegur
Frank D. Puissegur,

CFO and Chief Accounting Officer