

AMERICAN COMMERCE SOLUTIONS Inc  
Form 10QSB  
July 19, 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 May 31, 2007

**.. 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 248,833,626 shares of the Registrant's \$.002 par value common stock outstanding as of May 31, 2007.

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

---

**Table of Contents**

**Table of Contents**

**American Commerce Solutions, Inc.**

**Contents**

<u>Part I</u>	<u>Financial Information</u>	3
<u>Item 1.</u>	<u>Consolidated Financial Statements</u>	3
<u>Item 2.</u>	<u>Management's Discussion &amp; Analysis</u>	10
<u>Item 3.</u>	<u>Controls and Procedures</u>	14
<u>Part II</u>	<u>Other Information</u>	14
<u>Item 1.</u>	<u>Legal Proceedings</u>	14
<u>Item 2.</u>	<u>Changes in Securities</u>	14
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	14
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	14
<u>Item 5.</u>	<u>Other Matters</u>	14
<u>Item 6.</u>	<u>Exhibits and Reports on Form 8-K</u>	15
<u>Signatures</u>		15

**Table of Contents**

**PART I FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements**

*Consolidated Financial Statements*

*American Commerce Solutions, Inc. and Subsidiaries*

*As of May 31, 2007 and for the*

*Three Months Ended May 31, 2007 and 2006*

*(unaudited)*

Page 3

**Table of Contents**

American Commerce Solutions, Inc. and Subsidiaries

Consolidated Financial Statements

As of May 31, 2007 and for the

Three Months Ended May 31, 2007 and 2006

*(unaudited)*

**Contents**

Consolidated Financial Statements:

<u>Consolidated Balance Sheet</u>	5
<u>Consolidated Statements of Operations</u>	6
<u>Consolidated Statements of Cash Flows</u>	7
<u>Notes to Consolidated Financial Statements</u>	8

**Table of Contents**

## American Commerce Solutions, Inc. and Subsidiaries

## Consolidated Balance Sheet

May 31, 2007

*(unaudited)***Assets**

## Current assets:

Cash	\$ 3,454
Accounts receivable, net of allowance of \$1,808	19,071
Accounts receivable, factored	39,053
Inventory	229,748
Other receivables	60,797
Other current assets	43,346

Total current assets	395,469
----------------------	---------

Property and equipment, net of accumulated depreciation of \$2,344,263	4,841,171
--	-----------

## Other assets:

Intangible assets, net of accumulated amortization	51,722
--	--------

	\$ 5,288,362
--	--------------

**Liabilities and Stockholders Equity**

## Current liabilities:

Current portion of notes payable	\$ 594,161
Current portion of notes payable, related parties	423,732
Bank overdraft	25,602
Accounts payable, including amounts due to related parties of \$128,230	425,208
Accrued expenses	129,204
Due to related party	57,917
Accrued interest	162,447
Deferred revenue	112,965

Total current liabilities	1,931,236
---------------------------	-----------

Due to stockholders	900,810
---------------------	---------

Notes payable, net of current portion	777,472
---------------------------------------	---------

	1,678,282
--	-----------

## Stockholders equity:

Preferred stock, total authorized 5,000,000 shares:	3
---	---

Series A; cumulative and convertible; \$.001 par value; 600 shares authorized; 102 shares issued and outstanding; liquidating preference \$376,125	
--	--

Series B; cumulative and convertible; \$.001 par value; 3,950 shares authorized; 3,944 shares issued and outstanding; liquidating preference \$3,944,617	
--	--

Common stock; \$.002 par value; 350,000,000 shares authorized; 249,355,626 shares issued; 248,833,626 shares outstanding	498,712
--	---------

Additional paid-in capital	19,048,921
----------------------------	------------

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

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

Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10QSB

Accumulated deficit	(17,508,784)
Loan costs from issuance of common stock	(84,482)
Total stockholders' equity	1,678,844
	\$ 5,288,362

*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	
	May 31,	
	2007	2006
Net sales	\$ 767,362	\$ 649,346
Cost of goods sold	484,631	430,511
Gross profit	282,731	218,835
Selling, general and administrative expenses	534,991	528,416
Loss from operations	(252,260)	(309,581)
Other income (expense):		
Other	313	10,094
Interest expense	(42,146)	(33,025)
Total other income (expense)	(41,833)	(22,931)
Net loss	\$ (294,093)	\$ (332,512)
Net loss per common share	\$ (.00)	\$ (.00)
Weighted average number of common shares outstanding	246,136,838	235,840,765

*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)*

	<b>Three Months Ended May 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating activities:</b>		
Net loss	\$ (294,093)	\$ (332,512)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	102,248	107,210
Stock issued for services	28,161	29,942
Gain on sale of equipment		(4,500)
Decrease in allowance for doubtful accounts	(850)	(640)
(Increase) decrease in:		
Accounts receivables	49,172	(72,807)
Inventory	(15,949)	(14,522)
Other assets	(3,564)	14,486
Increase (decrease) in:		
Accounts payable and accrued expenses	(70,405)	9,923
Deferred income	205	59,030
<b>Net cash used by operating activities</b>	<b>(205,075)</b>	<b>(204,390)</b>
<b>Investing activities:</b>		
(Increase) decrease in other receivables	(50)	133
Payments on notes receivable		239,016
Proceeds from sale of equipment		4,500
Acquisition of property and equipment	(19,698)	(1,369)
<b>Net cash (used) provided by investing activities</b>	<b>(19,748)</b>	<b>242,280</b>
<b>Financing activities:</b>		
Increase in checks drawn in excess of bank balance	14,429	
Decrease (increase) in due from factor	20,400	(2,913)
Proceeds from notes payable and long-term debt	177,340	17,875
Principal payments on notes payable and capital leases	(58,627)	(37,171)
Increase in advances from stockholders	58,100	49,850
<b>Net cash provided by financing activities</b>	<b>211,642</b>	<b>27,641</b>
<b>Net (decrease) increase in cash</b>	<b>(13,180)</b>	<b>65,531</b>
<b>Cash, beginning of period</b>	<b>16,634</b>	<b>18,132</b>
<b>Cash, end of period</b>	<b>\$ 3,454</b>	<b>\$ 83,663</b>
<b>Supplemental disclosures of cash flow information and noncash investing and financing activities:</b>		
Cash paid during the period for interest	\$ 32,112	\$ 25,157

During the three months ended May 31, 2007 and 2006, the Company issued 9,816,309 and 9,650,136 shares of common stock to a related party and related company, respectively, valued at \$112,642 and \$119,758, respectively, in exchange for guarantees of a note payable. As of May 31, 2007 and 2006, \$28,161 and \$29,942, respectively, of these guaranty fees have been amortized.

## Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10QSB

During the three months ended May 31, 2007, the Company transferred \$20,000 from notes payable, related party to other payables, related party.

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

During the three months ended May 31, 2007 and 2006, the Company increased notes payable by \$6,099 and \$5,730, respectively for an accrual of interest.

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 May 31, 2007 and for the

Three Months Ended May 31, 2007 and 2006

(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 May 31, 2007, 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 on our restricted stock awards, but no compensation expense was recognized for fixed option plans as all option grants under the plan had an exercise price equal or greater to the fair market value of the underlying common stock on the date of grant. 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 value of each grant under FAS 123R is estimated at the grant date using the Black-Scholes option model. There were no options granted during the three months ended May 31, 2007 and 2006.

## **Table of Contents**

### **3. Going Concern**

The Company has incurred substantial operating losses since inception and has used approximately \$205,100 of cash in operations for the three months ended May 31, 2007. The Company recorded losses from continuing operations of approximately \$294,100 for the three months ended May 31, 2007. Current liabilities exceed current assets by approximately \$1,535,800 at May 31, 2007. 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 month periods ended May 31, 2007 and 2006, (b) the financial position at May 31, 2007, and (c) cash flows for the three month periods ended May 31, 2007 and 2006, 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, 2007. The results of operations for the three month period ended May 31, 2007 are not necessarily indicative of those to be expected for the entire year.

### **5. Accounts Receivable, Factored**

During the three months ended May 31, 2007, the Company factored receivables of approximately \$436,234. In connection with the factoring agreement, the Company incurred fees of approximately \$21,100 during the three months ended May 31, 2007. As of May 31, 2007, certain customers had remitted \$4,093 to the Company on factored receivables; the Company recorded this amount as due to the factor and it is included in accrued expenses on the accompanying consolidated balance sheet. Any and all of the Company's indebtedness and obligations to the Factoring Company is guaranteed by two directors and collateralized by the Company's inventory and fixed assets.

**Table of Contents****6. Segment Information**

The Company has two reportable segments during 2007 and 2006; 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 months ended May 31, 2007 and 2006 the Company has included segment reporting.

For the three months ended May 31, 2007, information regarding operations by segment is as follows:

	<b>Manufacturing</b>	<b>Fiberglass</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 696,037	\$ 71,325		\$ 767,362
Interest expense, net	\$ 31,171	\$ 6,453	\$ 4,522	\$ 42,146
Depreciation and amortization	\$ 66,152	\$ 35,924	\$ 172	\$ 102,248
Net loss	\$ (8,911)	\$ (80,218)	\$ (204,964)	\$ 294,093
Property and equipment, net of accumulated depreciation	\$ 4,137,404	\$ 702,847	\$ 920	\$ 4,841,171
Segment assets	\$ 4,368,442	\$ 859,436	\$ 60,484	\$ 5,288,362

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

	<b>Manufacturing</b>	<b>Fiberglass</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 612,338	\$ 37,008		\$ 649,346
Interest expense	\$ 25,889	\$ 1,021	\$ 6,115	\$ 33,025
Depreciation and amortization	\$ 71,114	\$ 35,923	\$ 173	\$ 107,210
Net loss	\$ (16,331)	\$ (102,603)	\$ (213,578)	\$ (332,512)
Property and equipment, net of accumulated depreciation	\$ 4,323,551	\$ 806,341	\$ 1,610	\$ 5,131,502
Segment assets	\$ 4,712,929	\$ 969,729	\$ 129,247	\$ 5,811,905

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.

**7. Related Party Transactions**

During the three months ended May 31, 2007 and 2006, two executives who are stockholders of the Company deferred approximately \$58,100 and \$49,900, respectively, of compensation earned during the period. The balance due to stockholders at May 31, 2007 totaled \$900,810. The amounts are unsecured, non-interest bearing, and have no specific repayment terms.

During the three months ended May 31, 2007 and 2006 the Company issued 9,816,309 and 9,650,136 shares of common stock, respectively, to a related party and a related company valued at \$112,642 and \$119,758, respectively, in exchange for a guarantee of a note payable.

During the three months ended May 31, 2007 the Company owed \$57,917 to a related company for reimbursement of expenses.

The above amounts are not necessarily indicative of the amounts that would have been incurred had comparable transactions been entered into with independent parties.

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

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 month periods ended May 31, 2007 and 2006. 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 months ended May 31, 2007 and 2006. 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 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 MAY 31, 2007 AND 2006.**

#### **General**

The Company's consolidated net sales increased to \$767,362 for the three months ended May 31, 2007, an increase of \$118,016 or 18%, from \$649,346 for the three months ended May 31, 2006. The overall increase in net sales is due to a normal fluctuation in our customer requirements.

Gross profit for the consolidated operations increased to \$282,731 for the three months ended May 31, 2007 from \$218,835 for the three months ended May 31, 2006. Gross profit as a percentage of sales was 37% and 34% for the three month periods ended May 31, 2007 and 2006, respectively. The increase in gross profit was due to a higher gross profit margin related to International Machine and Welding, Inc.'s product mix.

Consolidated interest expense, net for the three months ended May 31, 2007 was \$42,146 as compared to \$33,025 for same period in 2006 for an increase of \$9,121 or 28%. This increase in interest expense is due to additional debt.

Selling, general and administrative expenses increased to \$534,991 for the three months ended May 31, 2007 as compared to \$528,416 for the three months ended May 31, 2006, an increase of \$6,575 or 1%.





---

## Table of Contents

The Company incurred a net consolidated loss of \$294,093 for the three months ended May 31, 2007 compared to a loss of \$332,512 for the three months ended May 31, 2006. The decrease in the consolidated net loss is primarily due to the overall increase in revenues. 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 \$696,037 for the three months ended May 31, 2007 compared to \$612,238 for the three months ended May 31, 2006. The machining operations provided \$209,953 or 30% of net sales with parts and service providing \$486,084 or 70% of net sales for the three months ended May 31, 2007 as compared to machining operations contributing \$177,553 or 29% of net sales with parts and service providing \$434,785 or 71% of net sales for the three months ended May 31, 2006. The overall increase in net sales is due to an increase in sales through improved marketing for the three months ended May 31, 2007 as compared to the three months ended May 31, 2006.

Gross profit from the International Machine and Welding, Inc. was \$276,865 for the three months ended May 31, 2007 compared to \$236,587 for the same period in 2006 providing gross profit margins of 40% and 39%, respectively.

Selling, general and administrative expenses for International Machine and Welding, Inc. were \$254,753 for the three months ended May 31, 2007 compared to \$234,713 for the three months ended May 31, 2006. The increase in selling, general and administrative expenses is due to an overall increase in payroll and payroll related expenses associated with the increased revenue.

Interest expense, net was \$31,171 for the three months ended May 31, 2007 compared to \$25,889 for the same period ended 2006. The increase in interest expense, net is due to an increase in notes payable for the three months ended May 31, 2007.

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 \$71,325 for the three months ended May 31, 2007 as compared to \$37,008 for the same period in 2006. The increase in net sales is due to the Company reducing manufacturing while retooling was being completed during the three months ended May 31, 2006, and the Company was operational during the same time period ended May 31, 2007.

Gross profit from Chariot was \$5,866 for the three months ended May 31, 2007 providing a gross profit margin of 8% as compared to \$(17,752) providing a gross profit margin of (48%) for the same period in 2006. The increase in gross profit and the related gross profit margin was due to increased sales during 2007.

Selling, general and administrative expenses were \$79,795 for the three months ended May 31, 2007 as compared to \$86,321 for the same period in 2006.

## LIQUIDITY AND CAPITAL RESOURCES

During the three months ended May 31, 2007 and 2006, the Company used net cash from operating activities of \$205,075 and \$204,390, respectively.

During the three months ended May 31, 2007 and 2006, the Company (used) provided cash for investing activities of \$(19,748) and \$242,280, respectively. The increase in net cash used by investing activities is primarily due to the acquisition of property and equipment and no disposals of property in 2007 as compared to 2006 when cash was received from the collection of a note receivable related to the sale of property held for resale.

During the three months ended May 31, 2007 and 2006, the Company provided cash from financing activities of \$211,642 and \$27,641, respectively. The increase in net cash provided from financing activities is due to the increase of advances from stockholders and proceeds from the issuance of notes payable and long term debt during the three months ended May 31, 2007.

## Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10QSB

Cash flows from operations and loans or the sale of equity provided for working capital needs and principal payments on long-term debt through May 31, 2007. As of May 31, 2007, working capital deficit was \$1,535,767. To the extent that the cash flows from operations are insufficient to finance the Company's anticipated growth, or its other liquidity and capital

Page 12

## **Table of Contents**

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.

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.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the consolidated unaudited financial statements carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that included the enactment date.



## **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 May 31, 2007. 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 May 31, 2007, 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.

On March 26, 2007, 3,272,103 shares of common stock valued at \$37,547, were issued to a related party in exchange for guaranteeing a company note payable.

On March 26, 2007, 6,544,206 shares of common stock valued at \$75,095, were issued to a related company in exchange for guaranteeing a company note payable.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

The Company has defaulted on a total of \$790,753 of notes payable. The amount of principal payments in arrears was \$606,228, with an additional amount of \$184,525 of interest due at May 31, 2007. 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 May 31, 2007, the Company did not submit any matters to a vote of its security holders.

**ITEM 5. OTHER MATTERS**

None

Page 14

**Table of Contents**

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

- (a) Exhibits None
  
- (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: July 13, 2007

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

Date: July 13, 2007

By: /s/ Frank D. Puissegur  
Frank D. Puissegur,  
CFO and Chief Accounting Officer

Page 15