# UNITED STATES <br> SECURITIES AND EXCHANGE COMMISSION 

Washington, D.C. 20549

## FORM 10-Q

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 31, 2008

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. 

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

Delaware<br>(State or other jurisdiction of incorporation or organization)<br>05-0460102<br>(IRS Employer<br>Identification No.)<br>1400 Chamber Dr., Bartow, Florida 33830<br>(Address of principal executive offices)<br>(863) 533-0326<br>(Issuer s telephone number)<br>N/A<br>(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 Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x YES " NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

## Large accelerated filer "

Non-accelerated filer *

$$
\text { smaller reporting company } x
$$

There were $266,769,522$ shares of the Registrant s $\$ .002$ par value common stock outstanding as of August $31,2008$.

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

## American Commerce Solutions, Inc.

## Contents

Part I Financial Information ..... 3
Item 1. Consolidated Financial Statements ..... 3
Consolidated Balance Sheets ..... 3
Consolidated Statements of Operations ..... 4
Consolidated Statement of Changes in Stockholders Equity ..... 5
Consolidated Statements of Cash Flows ..... 6
Notes to Consolidated Financial Statements ..... 7
Item 2. Management s Discussion \& Analysis ..... 9
Item 3. Quantitative and Qualitative Disclosures About Market Risk ..... 13
Item 4T. Controls and Procedures ..... 14
Part II Other Information ..... 14
Item 1. Legal Proceedings ..... 14
Item 1A. Risk Factors ..... 14
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds ..... 14
Item 3. Defaults Upon Senior Securities ..... 14
Item 4. Submission of Matters to a Vote of Security Holders ..... 14
Item 5. Other Information ..... 14
Item 6. Exhibits and Reports on Form 8-K ..... 14
Signatures ..... 15

## Table of Contents

## PART I FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

American Commerce Solutions, Inc. and Subsidiaries
Consolidated Balance Sheets

|  | $\begin{aligned} & \text { August 31, } \\ & 2008 \\ & \text { (unaudited) } \end{aligned}$ | $\begin{gathered} \text { February 29, } \\ 2008 \end{gathered}$ |
| :---: | :---: | :---: |
| Assets |  |  |
| Current assets: |  |  |
| Cash | 5,145 | \$ 6,461 |
| Accounts receivable, net of allowance of \$848 and \$1,328, respectively | 34,706 | 36,260 |
| Accounts receivable, factored | 50,239 | 57,104 |
| Inventory | 222,070 | 210,096 |
| Other receivables | 46,717 | 47,123 |
| Other current assets | 30,059 | 39,699 |
| Total current assets | 388,936 | 396,743 |
| Property and equipment, net of accumulated depreciation of \$2,799,123 and \$2,630,808, respectively | 4,518,146 | 4,702,248 |
| Other assets: |  |  |
| Intangible assets, net of accumulated amortization of \$185,778 and \$166,778 | 4,222 | 23,222 |
| Other assets | 24,000 |  |

Liabilities and Stockholders Equity
Current liabilities:

| Current portion of notes payable | $\$ 1,349,074$ | $\$$ |
| :--- | ---: | ---: |
| Current portion of notes payable, related parties | 765,574 | 591,339 |
| Bank overdraft | 17,667 | 6,571 |
| Accounts payable, including amounts due to related parties of $\$ 246,261$ and $\$ 216,158$, respectively | 598,632 | 507,290 |
| Accrued expenses | 174,933 | 178,377 |
| Accrued interest | 243,214 | 208,456 |
| Deferred revenue | 107,757 | 116,655 |
|  |  | $2,4,256,851$ |
| Total current liabilities | $1,191,310$ | $1,075,110$ |
| Due to stockholders | 38,900 | 44,867 |
| Notes payable, net of current portion | $4,487,061$ | $4,078,039$ |

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; 267,291,522 and 251,272,293 shares
issued; 266,769,522 and 250,750,293 shares outstanding, respectively
534,584
502,545
$\begin{array}{llll}\text { Additional paid-in capital } & 19,144,980 & 19,068,088\end{array}$

Edgar Filing: AMERICAN COMMERCE SOLUTIONS Inc - Form 10-Q

| Stock subscription receivable | $(10,000)$ | $(10,000)$ |
| :--- | ---: | ---: |
| Treasury stock, at cost | $(265,526)$ | $(265,526)$ |
| Prepaid loan costs | $(54,465)$ |  |
| Accumulated deficit | $(18,901,333)$ | $(18,250,936)$ |
| Total stockholders equity | 448,243 | $1,044,174$ |
|  | $\$ 4,935,304$ | $\$ 5,122,213$ |

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 August 31, |  |  |  | Six Months Ended August 31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 |  | 2008 |  | 2007 |  |
| Net sales | \$ | 629,094 | \$ | 657,522 | \$ | 1,189,202 | \$ | 1,424,884 |
| Cost of goods sold |  | 362,538 |  | 362,565 |  | 687,822 |  | 847,196 |
| Gross profit |  | 266,556 |  | 294,957 |  | 501,380 |  | 577,688 |
| Selling, general and administrative expenses |  | 495,075 |  | 506,828 |  | 1,048,115 |  | 1,041,819 |
| Loss from operations |  | $(228,519)$ |  | $(211,871)$ |  | $(546,735)$ |  | $(464,131)$ |
| Other income (expense): |  |  |  |  |  |  |  |  |
| Other |  | 180 |  | 180 |  | 10,152 |  | 493 |
| Interest expense |  | $(56,091)$ |  | $(49,881)$ |  | $(113,814)$ |  | $(92,027)$ |
| Total other (expense) |  | $(55,911)$ |  | $(49,701)$ |  | $(103,662)$ |  | $(91,534)$ |
| Net loss | \$ | $(284,430)$ | \$ | $(261,572)$ | \$ | $(650,397)$ | \$ | $(555,665)$ |
| Net loss per common share | \$ | (.00) | \$ | (.00) | \$ | (.00) | \$ | (.00) |
| Weighted average number of common shares outstanding |  | 6,759,522 |  | 250,333,626 |  | 266,508,339 |  | 248,196,539 |

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

## Table of Contents

## American Commerce Solutions, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity
Six Months Ended August 31, 2008 (unaudited)

|  | Common Stock |  |  |  |  |  |  |  | Preferred Stock |  |
| :--- | ---: | ---: | ---: | ---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance, February 29, 2008 | Shares | Amount | Shares | Amount |  |  |  |  |  |  |
| Common shares issued for guaranty (unaudited) | $251,272,293$ | $\$ 502,545$ | 3,944 | $\$$ |  |  |  |  |  |  |
| Common shares issued for pledge of assets (unaudited) | $5,339,743$ | 10,680 |  |  |  |  |  |  |  |  |
| Amortization of loan costs (unaudited) | $10,679,486$ | 21,359 |  |  |  |  |  |  |  |  |
| Net loss (unaudited) |  |  |  |  |  |  |  |  |  |  |
| Balance, August 31, 2008 (unaudited) | $267,291,522$ | $\$ 534,584$ | 3,944 | $\$$ |  |  |  |  |  |  |


| Additional <br> Paid-In <br> Capital | Stock <br> Subscription <br> Receivable | Accumulated <br> Deficit | Treasury <br> Stock | Loan <br> Costs | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $\$ 19,068,088$ | $\$(10,000)$ | $\$(18,250,936)$ | $\$$ | $(265,526)$ | $\$$ | $(36,310)$ |

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)

|  | Six Months Ended August 31, |  |
| :---: | :---: | :---: |
|  | 2008 | 2007 |
| Operating activities: |  |  |
| Net loss | \$ $(650,397)$ | \$ (555,665) |
| Adjustments to reconcile net loss to net cash used by operating activities: |  |  |
| Depreciation and amortization | 202,858 | 208,008 |
| Amortization of stock issued for services | 54,466 | 56,321 |
| Gain on sale of equipment | $(10,168)$ |  |
| Increase (decrease) in allowance for doubtful accounts | (480) | (816) |
| (Increase) decrease in: |  |  |
| Accounts receivables | 2,034 | 40,972 |
| Inventory | $(11,974)$ | 7,144 |
| Other assets | 9,640 | 439 |
| Increase (decrease) in: |  |  |
| Accounts payable and accrued expenses | 134,854 | $(46,824)$ |
| Deferred income | $(8,898)$ | 10,214 |
| Net cash used by operating activities | $(278,065)$ | $(280,207)$ |
| Investing activities: |  |  |
| Decrease (increase) in other receivables | 406 | 11,471 |
| Acquisition of property and equipment | $(13,588)$ | $(113,381)$ |
| Net cash used by investing activities | $(13,182)$ | $(101,910)$ |
| Financing activities: |  |  |
| Increase in checks drawn in excess of bank balance | 11,096 | 223 |
| Decrease in due from factor | 6,865 | 7,947 |
| Proceeds from notes payable and long-term debt | 280,591 | 416,240 |
| Principal payments on notes payable and long-term debt | $(124,821)$ | $(160,579)$ |
| Increase in due to stockholders | 116,200 | 116,200 |
| Net cash provided by financing activities | 289,931 | 380,031 |
| Net decrease in cash | $(1,316)$ | $(2,086)$ |
| Cash, beginning of period | 6,461 | 16,634 |
| Cash, end of period | \$ 5,145 | \$ 14,548 |
| Supplemental disclosures of cash flow information and noncash investing and financing activities: |  |  |
| Cash paid during the period for interest | \$ 79,066 | \$ 69,452 |

During the six months ended August 31, 2008 and 2007, the Company issued 16,019,229 and 9,816,309 shares of common stock to a related party and related company, respectively, valued at $\$ 108,931$ and $\$ 112,642$, respectively, in exchange for guarantees of a note payable. As of August 31, 2008 and 2007, $\$ 54,466$ and $\$ 56,322$, respectively, of these guaranty fees have been amortized.

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

During the six months ended August 31, 2008, the Company exchanged equipment with a net book value of $\$ 13,832$ for a $\$ 24,000$ investment in common stock of another company.

During the six months ended August 31, 2007, the Company transferred $\$ 20,000$ from notes payable and $\$ 3,000$ of accrued interest, related party to other payables, related party. Subsequent to the transfer, the Company issued the related party $1,916,667$ shares of common stock for the acceptance of the assignment of debt.

During the six months ended August 31, 2008 and 2007, the Company increased notes payable by $\$ 12,199$ and $\$ 12,199$, 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<br>Notes to Consolidated Financial Statements<br>As of August 31, 2008 and for the<br>Three and Six Months Ended August 31, 2008 and 2007<br>(unaudited)

## 1. Background Information

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

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

## 2. Stock Based Compensation

At August 31, 2008, 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 and six months ended August 31, 2008 and 2007.

## 3. Going Concern

The Company has incurred substantial operating losses since inception and has used approximately $\$ 278,100$ of cash in operations for the six months ended August 31, 2008. The Company recorded losses from continuing operations of approximately $\$ 284,400$ and $\$ 650,400$ for the three and six months ended

## Table of Contents

August 31, 2008, respectively. Current liabilities exceed current assets by approximately $\$ 2,867,900$ at August 31, 2008. Additionally, the Company is in default on several notes payable. The ability of the Company to continue as a going concern is dependent upon its ability to reverse negative operating trends, raise additional capital, and obtain debt financing.

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

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

## 4. Basis of Presentation

In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three and six month periods ended August 31, 2008 and 2007, (b) the financial position at August 31, 2008, and (c) cash flows for the six month periods ended August 31, 2008 and 2007, have been made.

The unaudited consolidated financial statements and notes are presented as permitted by Form 10-Q. 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 29, 2008. The results of operations for the three and six month periods ended August 31, 2008 are not necessarily indicative of those to be expected for the entire year.

## 5. Accounts Receivable, Factored

During the three and six months ended August 31, 2008, the Company factored receivables of approximately $\$ 421,900$ and $\$ 866,000$, respectively. In connection with the factoring agreement, the Company incurred fees of approximately $\$ 14,200$ and $\$ 31,800$ during the three and six months ended August 31, 2008, respectively. As of August 31, 2008 and February 29, 2008, certain customers had remitted $\$ 11,828$ and $\$ 6,237$, respectively, 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 sheets. 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. Segment Information

The Company has two reportable segments during 2008 and 2007; manufacturing and fiberglass. Although both of these segments are in the manufacturing industry, they provide different types of products and services and each segment is subject to different marketing, production and technology strategies. Therefore, for the three and six months ended August 31, 2008 and 2007 the Company has included segment reporting.

For the three months ended August 31, 2008, information regarding operations by segment is as follows:

|  | Manufacturing |  | Fiberglass | Other |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Revenue | \$ | 540,630 | \$ 88,464 |  |  | \$ | 629,094 |
| Interest expense, net | \$ | 38,572 | \$ 7,551 | \$ | 9,968 | \$ | 56,091 |
| Depreciation and amortization | \$ | 62,869 | \$ 38,480 | \$ | 173 | \$ | 101,522 |
| Net loss | \$ | $(13,243)$ | \$ $(94,504)$ |  | 76,683) | \$ | $(284,430)$ |
| Property and equipment, net of accumulated depreciation | \$ | 3,837,784 | \$ 680,304 | \$ | 58 |  | 4,518,146 |

## Table of Contents

For the six months ended August 31, 2008, information regarding operations by segment is as follows:

|  | Manufacturing | Fiberglass | Other | Total |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | :---: |
| Revenue | $\$$ | $1,050,506$ | $\$$ | 138,696 |  |  |
| Interest expense | $\$$ | 73,995 | $\$$ | 13,738 | $\$$ | 26,081 |
| Depreciation and amortization | $\$$ | 125,893 | $\$ 189,202$ |  |  |  |
| Net loss | $\$$ | 76,620 | $\$$ | 345 | $\$$ | 202,858 |

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

|  | Manufacturing | Fiberglass | Other |  | Total |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| Revenue | $\$$ | 639,987 | $\$ 17,535$ |  | $\$$ | 657,522 |
| Interest expense, net | $\$$ | 34,855 | $\$$ | 5,853 | $\$$ | 9,173 |

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

|  | Manufacturing |  | Fiberglass |  | Other |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Revenue | \$ | 1,336,024 | \$ | 88,860 |  |  |  | ,424,884 |
| Interest expense | \$ | 66,026 | \$ | 12,307 | \$ | 13,694 | \$ | 92,027 |
| Depreciation and amortization | \$ | 133,229 | \$ | 74,434 | \$ | 345 | \$ | 208,008 |
| Net loss | \$ | $(16,589)$ |  | (32,819) |  | (406,257) |  | $(555,665)$ |

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. Inventories

Inventories consist of the following:

|  | August 31, 2008 | February 29, 2008 |  |  |
| :--- | ---: | ---: | ---: | ---: |
| Work-in-process | $\$ 18,546$ | $\$$ | 15,941 |  |
| Raw materials |  | 183,524 | 194,155 |  |
|  |  |  |  |  |
| Total inventories | $\$$ | 222,070 | $\$$ | 210,096 |

## 8. Related Party Transactions

During the three and six months ended August 31, 2008 and 2007, two executives who are stockholders of the Company deferred $\$ 58,100$, $\$ 116,200, \$ 58,100$ and $\$ 116,200$, respectively, of compensation earned during the periods. The balance due to stockholders at August 31, 2008 and February 29, 2008, totaled $\$ 1,191,310$ and $\$ 1,075,110$, respectively. The amounts are unsecured, non-interest bearing, and have no specific repayment terms.

During the six months ended August 31, 2008 and 2007 the Company issued $16,019,229$ and $9,816,309$ shares of common stock, respectively, to a related party and a related company valued at $\$ 108,931$ and $\$ 112,642$, respectively, in exchange for a guarantee of a note payable.

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

At August 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, 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 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 2009 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 six month periods ended August 31, 2008 and 2007. 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 six months ended August 31, 2008 and 2007. 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. 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.

## Table of Contents

## COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED AUGUST 31, 2008 AND 2007.

## General

The Company s consolidated net sales decreased to $\$ 629,094$ for the three months ended August 31, 2008, a decrease of $\$ 28,428$ or $4 \%$, from $\$ 657,522$ for the three months ended August 31, 2007. The overall decrease in net sales is due to the downturn in the economy.

Gross profit for the consolidated operations decreased to $\$ 266,556$ for the three months ended August 31, 2008 from $\$ 294,957$ for the three months ended August 31, 2007. Gross profit as a percentage of sales was $42 \%$ and $45 \%$ for the three month periods ended August 31, 2008 and 2007, respectively. The decrease in gross profit was due to the mix of work sold having a higher ratio of lower profit business.

Consolidated interest expense, net for the three months ended August 31, 2008 was $\$ 56,091$ as compared to $\$ 49,881$ for same period in 2007 for an increase of $\$ 6,210$ or $12 \%$. This increase in interest expense is due to additional debt.

Selling, general and administrative expenses decreased to $\$ 495,065$ for the three months ended August 31,2008 as compared to $\$ 506,828$ for the three months ended August 31, 2007, a decrease of $\$ 11,763$ or $2 \%$.

The Company incurred a net consolidated loss of $\$ 284,430$ for the three months ended August 31, 2008 compared to a loss of $\$ 261,572$ for the three months ended August 31, 2007. The increase in the consolidated net loss is primarily due to the overall decrease 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 \$540,630 for the three months ended August 31, 2008 compared to $\$ 639,987$ for the three months ended August 31, 2007. The machining operations provided $\$ 191,165$ or $35 \%$ of net sales with parts and service providing $\$ 349,465$ or $65 \%$ of net sales for the three months ended August 31, 2008 as compared to machining operations contributing $\$ 254,824$ or $40 \%$ of net sales with parts and service providing $\$ 385,163$ or $60 \%$ of net sales for the three months ended August 31, 2007. The overall decrease in net sales is due to downturn in the economy which has caused customers to reduce or delay orders in 2008.

Gross profit from the International Machine and Welding, Inc. was $\$ 263,580$ for the three months ended August 31, 2008 compared to $\$ 278,152$ for the same period in 2007 providing gross profit margins of $49 \%$ and $43 \%$, respectively. The increase in the gross profit margin is due to an increased markup monitored by management.

Selling, general and administrative expenses for International Machine and Welding, Inc. were $\$ 238,254$ for the three months ended August 31 , 2008 compared to $\$ 250,977$ for the three months ended August 31, 2007. The decrease in selling, general and administrative expenses is due to the termination of the employee leasing company.

Interest expense, net was $\$ 38,572$ for the three months ended August 31, 2008 compared to $\$ 34,855$ for the same period ended 2007. The increase in interest expense, net is due to an increase in notes payable for the three months ended August 31, 2008.

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 $\$ 88,464$ for the three months ended August 31, 2008 as compared to $\$ 17,535$ for the same period in 2007. The increase in net sales is due to production of trailers started in 2008, Chariot sold 14 trailers this quarter and is now manufacturing septic tanks for a new customer.

Gross profit from Chariot was $\$ 2,859$ for the three months ended August 31, 2008 providing a gross profit margin of $3 \%$ as compared to $\$ 16,804$ providing a gross profit margin of $96 \%$ for the same period in 2007.

## Table of Contents

The decrease in gross profit and the related gross profit margin was due to the increase in cost of goods sold, due to the current economic conditions.

Selling, general and administrative expenses were $\$ 90,108$ for the three months ended August 31, 2008 as compared to $\$ 63,732$ for the same period in 2007. The increase in selling, general and administrative expenses was mainly due to the rising cost of fuel, an increase in rent expense and an increase in marketing expenses.

## COMPARISON OF THE RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED AUGUST 31, 2008 AND 2007.

## General

The Company s consolidated net sales decreased to $\$ 1,189,202$ for the six months ended August 31, 2008, a decrease of $\$ 235,682$ or $17 \%$, from $\$ 1,424,884$ for the six months ended August 31, 2007. This decrease was mainly due to the current state of the economy and therefore, the customer base is cutting back on their orders.

Gross profit for the consolidated operations increased to $\$ 501,380$ for the six months ended August 31,2008 from $\$ 577,688$ for the six months ended August 31, 2007. Gross profit as a percentage of sales was $42 \%$ and $41 \%$ for the six month periods ended August 31, 2008 and 2007, 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 six months ended August 31, 2008 was $\$ 113,814$ as compared to $\$ 92,027$ for same period in 2007 for an increase of $\$ 21,787$ or $24 \%$. The increase in interest expense, net is due to the Company s additional debt taken on during first and second quarter of 2008.

Selling, general and administrative expenses increased to $\$ 1,048,115$ for the six months ended August 31,2008 as compared to $\$ 1,041,819$ for the six months ended August 31, 2007, an increase of $\$ 6,286$ or $1 \%$.

The Company incurred a net consolidated loss of $\$ 650,397$ for the six months ended August 31, 2008 compared to a loss of $\$ 555,665$ for the six months ended August 31, 2007. The increase in the consolidated net loss is primarily due to the decrease in revenue of the manufacturing segment during the six months ended August 31, 2008. 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 \$1,050,506 for the six months ended August 31, 2008 compared to $\$ 1,336,024$ for the six months ended August 31,2007 . The machining operations provided $\$ 387,848$ or $37 \%$ of net sales with parts and service providing $\$ 662,658$ or $63 \%$ of net sales for the six months ended August 31, 2008 as compared to machining operations contributing $\$ 464,777$ or $35 \%$ of net sales with parts and service providing $\$ 871,247$ or $65 \%$ of net sales for the six months ended August 31, 2007. The overall decrease in net sales is due to the current state of the economy and therefore, the customer base is cutting back on their orders.

Gross profit from the International Machine and Welding, Inc. was $\$ 498,534$ for the six months ended August 31,2008 compared to $\$ 555,018$ for the same period in 2007 providing gross profit margins of $47 \%$ and $42 \%$, 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 $\$ 482,551$ for the six months ended August 31, 2008 compared to $\$ 505,730$ for the six months ended August 31, 2007. The decrease in selling, general and administrative expenses is due to the Company not renewing the Officer s Life Insurance policy in 2008, the termination of the employee leasing company in 2008 and the decrease in collection fees, which is the result of the decrease in revenue.

## Table of Contents

Interest expense, net was $\$ 73,995$ for the six months ended August 31, 2008 compared to $\$ 66,026$ for the same period ended 2007. The increase in interest expense, net is due to an overall increase in the outstanding debt for the six months ended August 31, 2008.

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 $\$ 138,696$ for the six months ended August 31,2008 as compared to $\$ 88,860$ for the same period in 2007. The increase in net sales is due to the start up of the production of trailers in 2008 and the addition of a new customer.

Gross profit from Chariot was $\$ 2,846$ for the six months ended August 31, 2008 providing a gross profit margin of $2 \%$ as compared to $\$ 22,670$ providing a gross profit margin of $26 \%$ for the same period in 2007. The decrease in gross profit and the related gross profit margin was due higher cost of goods sold in 2008 for the production of the new septic tanks.

Selling, general and administrative expenses were $\$ 180,152$ for the six months ended August 31, 2008 as compared to $\$ 143,527$ for the same period in 2007. The increase in selling, general and administrative expenses was mainly due to the rising cost of fuel, an increase in rent expense and an increase in marketing expenses.

## LIQUIDITY AND CAPITAL RESOURCES

During the six months ended August 31, 2008 and 2007, the Company used net cash from operating activities of $\$ 278,065$ and $\$ 280,207$, respectively.

During the six months ended August 31, 2008 and 2007, the Company used cash for investing activities of $\$ 13,182$ and $\$ 101,910$, respectively. The decrease in net cash used by investing activities is primarily due to the decrease in the acquisition of property and equipment in 2008 as compared to 2007.

During the six months ended August 31, 2008 and 2007, the Company provided cash from financing activities of $\$ 289,931$ and $\$ 380,031$, respectively. The decrease in net cash provided from financing activities is due to the decrease in the proceeds from the issuance of notes payable and long term debt during the six months ended August 31, 2008.

Cash flows from loans provided for working capital needs and principal payments on long-term debt through August 31, 2008. As of August 31, 2008 , the working capital deficit was $\$ 2,867,915$. 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.

## Table of Contents

## 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Not applicable.

## Table of Contents

## ITEM 4T. CONTROLS AND PROCEDURES

The Company s Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the six month period ending August 31, 2008 covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer has concluded that, as of the end of such period, the Company s disclosure controls and procedures were not effective as required under Rules 13a-15(e) and 15d-15(e) under the Exchange Act. This conclusion by the Company s Chief Executive Officer and Chief Financial Officer does not relate to reporting periods after August 31, 2008.

## Changes in Internal Control Over Financial Reporting

No change in the Company s internal control over financial reporting occurred during the quarter ended August 31, 2008, that materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

None.

## ITEM 1A. RISK FACTORS

Not applicable.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended August 31, 2008, 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 3, 2008, 5, 339, 743 shares of common stock valued at $\$ 36,310$, were issued to a related party in exchange for guaranteeing a company note payable.

On March 3, 2008, 10,679,486 shares of common stock valued at $\$ 72,621$, 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 $\$ 880,038$ of notes payable. The amount of principal payments in arrears was $\$ 641,248$, with an additional amount of $\$ 238,790$ of interest due at August 31, 2008. 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 August 31, 2008, the Company did not submit any matters to a vote of its security holders.

## ITEM 5. OTHER MATTERS

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

## Table of Contents

## 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.

Date: October 14, 2008

Date: October 14, 2008

AMERICAN COMMERCE SOLUTIONS, INC.

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

President

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

