

Edgar Filing: AMERICAN STONE INDUSTRIES INC - Form 10QSB

AMERICAN STONE INDUSTRIES INC  
Form 10QSB  
August 16, 2004

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2004

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-22375

American Stone Industries, Inc.

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

Delaware

13-3704099

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

-----  
(IRS Employer Identification No.)

230 W. Main St., Amherst, Ohio 44001

-----  
(Address of principal executive officer)

(440) 986-4501

-----  
(Issuer's telephone number)

8705 Quarry Road, Amherst, OH 44001

-----  
(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 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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of August 10, 2004:

2,002,021

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### AMERICAN STONE INDUSTRIES, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2004	Dece 2
	-----	-----
	(Unaudited)	(Au
<b>ASSETS</b>		
Current Assets		
Cash	\$ 274,437	\$
Accounts receivable	214,245	
Inventory	755,135	
Prepaid expenses	8,400	
Total Current Assets	----- 1,252,217	----- 1,
Property, Plant and Equipment, Net - At Cost	----- 3,062,384	----- 3,
Other Assets	----- 51,727	-----
	----- \$ 4,366,328	----- \$ 4,
	=====	=====
<b>LIABILITIES</b>		

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Current Liabilities		
Current portion of notes payable	1,373,407	1,
Accounts payable	166,219	
Accrued liabilities	337,398	
	-----	-----
Total Current Liabilities	1,877,024	2,
	-----	-----
Long Term Liabilities	1,300,000	1,
	-----	-----
SHAREHOLDERS' EQUITY		
Common Stock, \$.001 par value, 20 million shares authorized 1,939,169 issued and outstanding		
	1,939	
Additional capital	4,829,708	4,
Retained earnings (deficit)	(3,642,343)	(3,
	-----	-----
	1,189,304	1,
	-----	-----
	\$ 4,366,328	\$ 4,
	=====	=====

Note: The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See notes to condensed consolidated financial statements.

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AMERICAN STONE INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 (Unaudited)	2003 (Unaudited)	2004 (Unaudited)	2003 (Unaudite
Net Sales	\$ 736,101	\$ 761,215	\$ 1,166,904	\$ 1,082,7
Cost of Sales	411,287	456,930	778,222	1,131,3
	-----	-----	-----	-----
Gross Profit	324,814	304,285	388,682	(48,5
Selling, General and Administrative Expenses	156,849	182,547	342,725	404,3
	-----	-----	-----	-----
Income (Loss) From Operations	167,965	121,738	45,957	(452,9
	-----	-----	-----	-----
Other Income (Expense)				
Interest income	612	5	612	
Interest expense	(49,836)	(41,189)	(98,400)	(83,2
Sale of option to sell land	125,000	-0-	125,000	-

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Other income	43,528	2,975	53,498	8,6
Gain/(loss) on sale of assets	550	-0-	550	(5,1
	-----	-----	-----	-----
	119,854	(38,209)	81,260	(79,7
	-----	-----	-----	-----
Income (Loss) Before Income Taxes	287,819	83,529	127,217	(532,7
Provision For (Recovery of) Income Taxes	-0-	-0-	-0-	
	-----	-----	-----	-----
Net Income/(Loss)	\$ 287,819	\$ 83,529	\$ 127,217	\$ (532,7
	=====	=====	=====	=====
Net Income (Loss) Per Common Share				
Basic	\$ .15	\$ .05	\$ .07	\$ (. )
	=====	=====	=====	=====
Diluted	\$ .14	\$ .04	\$ .06	\$ (. )
	=====	=====	=====	=====

See notes to condensed consolidated financial statements.

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AMERICAN STONE INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003

	2004	2003
	-----	-----
	(Unaudited)	(Unaudited)
Cash Flow From Operating Activities		
Net income/(loss)	\$ 127,217	\$ (532,700)
Noncash items included in income:		
Depreciation and amortization	192,426	213,800
(Gain)/loss on sale of fixed assets	(550)	5,181
Changes in assets and liabilities:		
Accounts receivable	(53,942)	165,247
Inventory	82,303	78,458
Prepaid expenses	(13,202)	33,417
Accounts payable - trade	(350,126)	(193,891)
Accrued expenses	149,083	122,982
	-----	-----
Net Cash From (Used In) Operating Activities	133,209	(107,506)
Cash Flows From Investing Activities	(10,567)	(39,002)
Cash Flows From Financing Activities	(132,443)	375,304
	-----	-----
Net (Decrease) Increase in Cash	(9,801)	228,796
Cash - Beginning of Period	284,238	5,697
	-----	-----
Cash - End of Period	\$ 274,437	\$ 234,493
	=====	=====
Supplemental Disclosure of Cash Flows		
Information		
Interest paid	\$ 50,900	\$ 83,500
Income taxes paid	\$ -0-	\$ -0-

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See notes to condensed consolidated financial statements.

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AMERICAN STONE INDUSTRIES, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2004

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted for interim financial information and with the instructions to Form 10-QSB and item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the American Stone Industries, Inc. Annual Report on Form 10-KSB for the year ended December 31, 2003.

NOTE B - FINANCIAL REPORTING FOR SEGMENTS OF THE COMPANY

The Company and its subsidiary operated predominantly in one industry, the design, quarrying and cutting of sandstone primarily used in the construction industry.

Following is the information regarding the Company's sales by geographic location.

	Six Months Ended June 30, 2004	2003
	-----	-----
Net sales, including geographic transfers		
United States	\$ 1,123,317	\$ 950
Canada	43,587	131
	-----	-----
	\$ 1,166,904	\$ 1,082
	=====	=====

NOTE C - STOCK OPTION PLANS

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APBO No. 25), and related interpretations, in accounting for its stock options because, as discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), requires use of highly subjective assumptions in option valuation models. Under APBO No. 25, because the exercise price of the Company's stock options granted is not less than fair market price of the shares at the date of grant, no compensation is recognized in the financial statements.

Pro forma information regarding net income and earnings per share,

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determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123, is required by that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions for all options granted: a risk free interest rate of 1.69% and 1.18% for 2004 and 2003, respectively, and expected life of the options of five years, no expected dividend yield and a volatility factor of 10%. Additionally, a marketability discount of 50% has been assumed for the second quarter of 2004 and 2003.

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AMERICAN STONE INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2004

NOTE C - STOCK OPTION PLANS (CONTINUED)

	June 30, 2004	2003
	-----	-----
Net income/(loss), as reported	\$ 127,217	\$ (532,700)
Deduct: (Loss), Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	(109,199)	(22,839)
	-----	-----
Pro forma net income/(loss)	\$ 18,018	\$ (555,539)
	=====	=====
Earnings (loss) per share:		
Basic - as reported	\$ .07	\$ (.27)
	=====	=====
Basic - pro forma	\$ .01	\$ (.29)
	=====	=====
Diluted - as reported	\$ .06	\$ (.27)
	=====	=====
Diluted - pro forma	\$ .01	\$ (.29)
	=====	=====

NOTE D - OPTION AGREEMENT

The Company owns approximately 1,100 acres of land in Northern Ohio. On May 24, 2004, American Stone Corporation executed an option agreement with Trans European Securities International LLP, "Trans European", under which Trans European acquired an option to purchase approximately 900 acres of American Stone's real estate located in Lorain County, Ohio, for a purchase price of \$23,740,000.

The property has frontage on State Route 113 and Quarry Road. It is approximately three miles from the Ohio Turnpike with access at Baumhart Road, Route 58 and Route 57. Under the terms of the agreement, Trans European has an option for a period of 15 months to purchase the real estate. To acquire the option, Trans European will pay American Stone \$250,000: \$125,000 paid on May 29, 2004 and \$125,000 to be paid February 18, 2005. If the second payment is not made the option will expire.

Upon the exercise of the option, Trans European has agreed to purchase the real estate and pay to American Stone: \$5,000,000 within 30 days of the

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exercise, or the expiration of the option period, whichever is later; \$10,000,000 one year later; and the balance of the purchase price, or \$8,490,000 on the second anniversary of the closing date. In addition to the purchase price noted above, Trans European has agreed to share with American Stone a portion of its earnings that would relate to other than residential sales of the real estate. The sales of this portion of American Stone's real estate will not interfere with any of American Stone's existing or planned stone quarrying or processing operations. American Stone and Cleveland Quarries will continue to operate in all respects as they have previous to the transaction on their remaining acres of land not included in the option.

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### AMERICAN STONE INDUSTRIES, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2004

#### NOTE E - SUBSEQUENT EVENT

On July 1, 2004, \$220,000 of unsecured Convertible Subordinated Promissory Notes were converted to 62,582 shares of Company common stock in accordance with terms of the notes.

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#### ITEM 2.

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

#### RESULTS OF OPERATIONS

Following is a discussion of the principal factors that affected the Company's results of operations for the three months and the six months ended June 30, 2004 and 2003.

#### COMPANY OVERVIEW AND OUTLOOK

American Stone Industries, Inc. is a holding company that mines and sells stone primarily for the building stone market through its wholly-owned subsidiary, American Stone Corporation. American Stone Corporation owns and operates the Cleveland Quarries in Amherst, Ohio. We produce dimensional stone which is cut to size as specified in architectural designs and used in commercial and government buildings as well as in all classes of residential homes. The value of Berea Sandstone adds greatly to all types of landscaping designs and pools, as well. We also produce construction stone, which is primarily used for road base, back fill and erosion control.

In January 2001, we created Amherst Stone at Cleveland Quarries, Inc., a wholly-owned subsidiary, to distribute our stone and other natural stone products directly to northern Ohio builders and landscapers. In December 2002 we decided to close Amherst Stone and consolidate the remaining activities into American Stone Corporation.

Looking forward, our goals include increasing our niche marketing area, adding new equipment, and carrying block and finished slab inventory. We plan to increase our niche by adding new outside marketing representatives to cover the entire United States. With our new architectural brochure and dealer catalog, new outside representatives and our sales team we are positioned to more actively pursue new business. The addition of a second block saw and a second

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new polisher will better equip us to meet peak demands that the new business will produce. Quarry work has been difficult in 2004 due to the significant amount of rainfall we have received which stops quarrying activity. However, our expectation is to have 40,000-50,000 cubic feet of block in inventory before the seasonal quarry closure, as well as 30 to 60 days' supply of finished slab. This will give us a favorable position to continue meeting order requirements through the colder months so that we are in good position when our busy season begins in the spring.

### 2004 COMPARED TO 2003

For the second quarter of 2004, sales decreased \$25,114, or 3%, from 2003 due primarily to the closure of the Amherst Stone distribution business. Unusually cold weather in early 2004 adversely affected our ability to pull stone from the quarry for the first quarter of 2004. Being more selective in choosing jobs with higher profit potential and focusing on selling products that we produced from our own raw materials increased our opportunity for profitability. For the six months ended June 30, 2004, sales increased \$84,514, or 8% from 2003.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### 2004 COMPARED TO 2003 (CONTINUED)

Gross profit as a percentage of net sales improved to 44% in the second quarter of 2004 compared with 40% in the same period a year ago. The improvement was due to operating efficiencies and management's focus on only producing products that it is confident the Company can manufacture and deliver at a profit. Gross profit percentage for the six months ended June 30, 2004, was 33% compared with to a negative gross profit margin of 4% for the first six months of 2003. The unfavorable result in 2003 was due primarily to the unusually harsh winter weather that closed the Company's quarries from January through mid-March 2003.

Selling, general and administrative (SG&A) expenses were \$156,849 in the second quarter of 2004, a 14% decrease compared with SG&A expenses of \$182,547 in the same period of 2003. The decrease was due to management efficiencies, cost reductions and lower sales. As a percentage of net sales, SG&A expenses decreased to 21% in the second quarter of 2004 compared with 24% in the second quarter of 2003 as a result of lower costs in the most recent quarter. For the six months ended June 30, 2004, SG&A expenses as a percentage of net sales were 29% compared to 37% for the same period in 2003. The decrease was due to increased sales levels, cost reductions and debt forgiveness in the first six months of 2004 compared with the first six months of 2003.

Interest expense increased \$15,103 or 18% for the six months ended 2004 compared to 2003 due primarily to increased average borrowing levels in 2004. In addition the Company sold an option to sell land and recognized \$125,000 of income in the second quarter of 2004.

We did not record a provision for income taxes in 2004. We have \$6,500,000 of unused net operating loss carryforwards that may be applied against future taxable income. These carryforwards expire in various amount from 2007 through 2023. Our ability to use the carryforwards will depend upon generating taxable income in the future. There are no assurances that we will be profitable in the future, and as a result we did not reflect a tax benefit in 2003 from the net loss.

The net income for the six months ended June 30, 2004 of \$127,216 was



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significantly greater than the net loss in 2003 of \$532,700. The net income for the second quarter of 2004 was \$287,819 compared to a loss of \$83,529 for the second quarter of 2003. The main drivers were improved gross profit margins combined with lower selling and administrative expenses, as previously discussed.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, judgments and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. We evaluate the accounting policies and estimates we use to prepare financial statements, which we believe to be reasonable under the relevant circumstances. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements related to the accounting policies and estimates described in the text that follows. The application of these critical accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties, and as a result, actual results could differ from these estimates. For additional information regarding our accounting policies, see Note 1 to the consolidated financial statements included in the annual report on Form 10-KSB for the fiscal year ended December 31, 2003.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### CONTINGENCIES

We are subject to various investigations, claims, and legal and administrative proceedings covering a wide range of matters that arise in the ordinary course of business activities. Any liability that may result from these proceedings, and any liability that is judged to be probable and estimable, has been accrued. Any potential liability not accrued is not currently expected to have a material effect on our future financial position, results of operation or cash flows.

#### CASH FLOWS

(ALL "CASH FLOWS" AMOUNTS IN THOUSANDS)

	Six Months Ended June 30,	
	2004	2003
Operating activities	\$ 133	\$ (107)
Investing activities	(10)	(39)
Financing activities	(132)	375

Cash from operating activities in 2004 was \$133. The net income of \$127 included depreciation and amortization of \$219. Major uses of cash were a \$54 increase in accounts receivable and \$350 decrease in accounts payable. Major sources of cash were a \$149 increase in accrued expenses, an \$82 decrease in inventory, and the sale of option to purchase land for \$125.

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Cash used by operating activities in 2003 was \$108. The net loss of \$533 included depreciation and amortization of \$214. Major sources of cash were a \$165 decrease in accounts receivable, a \$78 decrease in inventory, \$33 decrease in prepaid expenses, and an increase of \$123 in accrued expenses. The major use of cash was a \$194 decrease in accounts payable.

Cash used by investing activities in 2004 was \$11 to purchase equipment to improve productivity.

Cash used by investing activities in 2003 was \$39 to purchase equipment to improve productivity.

Cash used in financing activities in 2004 was \$132. Cash was used to repay long term debt.

Cash provided by financing activities in 2003 was \$375. Borrowings were from an unsecured note payable to Roulston Venture Capital L.P., a significant shareholder.

### LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2004 we had cash totaling \$274,437. During 2003 we had a line of credit with maximum borrowings of \$500,000. This line of credit was paid off and closed before December 31, 2003.

As of June 30, 2004 our current portion of long-term debt was \$1,373,407, which represents the principal portion of our debt that is due to be repaid by June 30, 2005. These debt maturities will need to be extended or refinanced during 2004 for us to be able to continue to fund operations and meet our obligations. Profitable operations for the remainder of 2004 will be an important factor in helping us to extend or refinance these obligations. Additionally, on July 1, 2004, \$220,000 of notes payable were converted to 62,852 shares of common stock in accordance with the terms of the agreements.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Capital spending for the rest of 2004 is currently estimated at between \$50,000 and \$100,000, primarily for equipment needed to maintain operations.

At June 30, 2004 none of our borrowing arrangements contained financial covenants, and we do not believe we were we subject to any unsatisfied judgments, liens or settlement obligations.

We have experienced significant operating losses over the previous three years. As a result, we have had cash flow and liquidity problems. We have taken steps to reduce administrative overhead, employment levels and other expenses, have instituted strict controls over the granting of credit to customers and have put new sales policies and procedures into place. There can be no assurances that these measures will enable us to become profitable or achieve positive cash flow in the foreseeable future. We are also currently exploring additional long term funding sources, including debt placement, stock issuance and other alternatives. If Trans European exercises the option to purchase a portion of the company land, the proceeds of the option exercise will provide substantial liquidity to the Company. There can be no assurance, however, that Trans European will exercise the option or, if it does so, that the exercise will be timely in relation to the liquidity requirements of the Company.

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### CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

In this quarterly report, statements that do not report financial results or other historical information are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give current expectations or forecasts of future events and are not guarantees of future performance. They are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historic or current facts. Words are used such as "anticipate", "estimate", "project", "intend", "plan", "believe" and other words and terms of similar meaning in connection with the discussion of future operating or financial performance. In particular, these include statements relating to future actions; prospective changes in manufacturing costs, product pricing or product demand; future performance or results of current and anticipated market conditions and market strategies; sales efforts; expenses; the outcome of contingencies such as legal proceedings; and financial results.

Factors that could cause actual results to differ materially include, but are not limited to: (1) general economic, business and market conditions, (2) actions by competitors, (3) the success of advertising or promotional efforts, (4) trends within the building construction industry, (5) the existence or absence of adverse publicity, (6) changes in relationships with the Company's major customers or in the financial condition of those customers, (7) equipment and operational problems, and (8) the adequacy of the Company's financial resources and the availability and terms of any additional capital.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS (CONTINUED)

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-QSB, 8-K and 10-KSB reports to the Securities and Exchange Commission. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

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### PART II. OTHER INFORMATION

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

(a) Exhibits

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Exhibit 10.1      Option agreement with Trans European Securities International LLP  
Exhibit 31      Certification of principal officer and principal financial officer  
Exhibit 32      Section 1350 Certification

(b) Reports on Form 8-K

An 8-K was filed on May 27, 2004 indicating that the Company entered into an option to sell land.

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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 Stone Industries, Inc.  
(Registrant)

Date: August 10, 2004

/s/ Russell Ciphers, Sr.

-----  
Russell Ciphers, Sr., President and  
Chief Executive Officer (Principal  
Executive Officer and Principal  
Financial Officer)

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