

Edgar Filing: AMERICAN STONE INDUSTRIES INC - Form 10QSB

AMERICAN STONE INDUSTRIES INC  
Form 10QSB  
May 13, 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 March 31, 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 the latest practicable date:

1,939,169

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AMERICAN STONE INDUSTRIES, INC.

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

	March 31, 2004	December 31, 2003
	----- (Unaudited)	----- (Audited)
<b>ASSETS</b>		
Current Assets		
Cash	\$ 97,001	\$ 284,238
Accounts receivable	355,677	160,303
Inventory	812,438	837,438
Prepaid expenses	9,600	2,700
	-----	-----
Total Current Assets	1,274,716	1,284,679
	-----	-----
Property, Plant and Equipment, Net - At Cost	3,183,265	3,243,693
	-----	-----
Other Assets	44,225	44,225
	-----	-----
	\$ 4,502,206	\$ 4,572,597
	=====	=====
<b>LIABILITIES</b>		
Current Liabilities		
Current portion of notes payable	1,503,855	1,505,850

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Accounts payable	490,789	516,345
Accrued liabilities	306,077	188,315
	-----	-----
Total Current Liabilities	2,300,721	2,210,510
	-----	-----
Long Term Liabilities	1,300,000	1,300,000
	-----	-----

SHAREHOLDERS' EQUITY

Common Stock, \$.001 par value, 20 million shares authorized 1,939,169 issued and outstanding	1,939	1,939
Additional capital	4,829,708	4,829,708
Retained earnings (deficit)	(3,930,162)	(3,769,560)
	-----	-----
	901,485	1,062,087
	-----	-----
	\$ 4,502,206	\$ 4,572,597
	=====	=====

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 MONTHS ENDED MARCH 31, 2004 AND 2003

	2004	2003
	-----	-----
	(Unaudited)	(Unaudited)
Net Sales	\$ 430,803	\$ 321,535
Cost of Sales	366,935	674,382
	-----	-----
Gross Profit (Loss)	63,868	(352,847)
Selling, General and Administrative Expenses	185,876	221,818
	-----	-----
Loss From Operations	(122,008)	(574,665)
Other income (Expense)		
Interest income	-0-	32
Interest expense	(48,564)	(42,108)
Other income	9,970	5,693
Loss on sale of assets	-0-	(5,181)
	-----	-----
	(38,594)	(41,564)

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Loss Before Income Taxes	(160,602)	(616,229)
Provision For Income Taxes	-0-	-0-
Net Loss	\$ (160,602)	\$ (616,229)
Net Loss Per Common Share		
Basic	\$ (.08)	\$ (.32)
Diluted	\$ (.08)	\$ (.32)

See notes to condensed consolidated financial statements.

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AMERICAN STONE INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

Cash Flow From Operating Activities	
Net loss	\$ (160,602)
Noncash items included in income:	
Depreciation and amortization	10,000
Loss on sale of fixed assets	
Changes in assets and liabilities:	
Accounts receivable	(19,000)
Inventory	2,000
Prepaid expenses	(2,000)
Accounts payable - trade	(2,000)
Accrued expenses	11,000
Total Adjustments	
Net Cash Used In Operating Activities	(13,602)
Cash Flows From Investing Activities	(4,000)
Cash Flows From Financing Activities	(1,000)
Net (Decrease) Increase in Cash	(18,602)
Cash - Beginning of Period	28,000
Cash - End of Period	\$ 9,400

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Supplemental Disclosure of Cash Flows  
Information

Interest paid	\$ 4
Income taxes paid	\$

See notes to condensed consolidated financial statements.

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AMERICAN STONE INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 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 three-month period ended March 31, 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.

	Three Months E 2004
	-----
Net sales, including geographic transfers	
United States	\$ 426,928
Canada	3,875
	-----
	\$ 430,803
	=====

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 option because, as discussed below,

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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 option 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, 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 1.08% 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 third quarter of 2004 and 2003.

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AMERICAN STONE INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2004

NOTE C - STOCK OPTION PLANS (CONTINUED)

	March 31,	
	2004	2003
	-----	-----
Net loss, as reported	(160,602)	(616,229)
Deduct: (Loss), Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	(23,235)	(7,170)
	-----	-----
Pro forma net loss	\$ (183,837)	\$ (623,399)
	=====	=====
Earnings per share:		
	-----	-----
Basic - as reported	\$ (.08)	\$ (.32)
	=====	=====
	-----	-----
Basic - pro forma	\$ (.09)	\$ (.32)
	=====	=====
	-----	-----
Diluted - as reported	\$ (.08)	\$ (.32)
	=====	=====
	-----	-----
Diluted - pro forma	\$ (.09)	\$ (.32)
	=====	=====

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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 ended March 31, 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 primarily used as architectural accents to buildings. 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 immediate challenge is to increase our geographic area and continue to improve our operating efficiencies while controlling costs so we can generate profitability and positive cash flow and strengthen our balance sheet. Cash remains tight, but as a result of new credit disciplines we have significantly reduced bad debt write-offs. 2004 started very slowly due to weather, which prevented us from quarrying stone all winter. However, we have ample saleable inventory on hand, more that we have had in several years going into the season. We judiciously invested in new equipment for the quarry in 2003 that we expect will improve productivity and reduce operating costs. The market continues to be soft, but we are cautiously optimistic. With our new architectural brochure and dealer catalog, new outside representatives and our sales team we are positioned to more actively pursue new business. If architectural project opportunities materialize as anticipated, we believe we can increase sales 25-30% over 2003 levels. We are confident we could handle such an increase in volume without adding to staff, assuming the workflow is reasonably spread out. At these higher volumes, we should be able to produce a profit in 2004.

#### 2004 COMPARED TO 2003

Sales increased \$109,268, or 34%, from 2003 due to the closure of the Amherst Stone distribution business. Unusually cold weather in early 2004 adversely impacted 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.

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

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2004 COMPARED TO 2003 (CONTINUED)

Gross profit, as a percentage of sales, increased to 15% in 2004 compared to a negative 110% in the first quarter of 2003 due to choosing jobs with higher profit potential combined with cost reduction and productivity improvement programs.

Selling and administrative expenses decreased \$35,942 or 16% in 2004 from 2003, primarily due to cost reduction actions and the elimination of non-value added activities.

Interest expense increased \$6,456 or 15% in 2004 compared to 2003 due primarily to increased average borrowing levels in 2004.

We did not record a benefit 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 loss in 2004 of \$160,602 was significantly less than the net loss in 2003 of \$616,229. The main drivers were significantly improved gross profit margins combined with significantly 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.

### 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.

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



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### CASH FLOWS

(ALL "CASH FLOWS" AMOUNTS IN THOUSANDS)

	Three Months Ended March 31,	
	2003	2002
Operating activities	\$ (138)	\$ (158)
Investing activities	(47)	10
Financing activities	(2)	168

Cash used by operating activities in 2004 was \$138. The net loss of \$160 included depreciation and amortization of \$107. Major uses of cash were a \$195 increase in accounts receivable and \$25 decrease in accounts payable. Major sources of cash were a \$117 increase in accrued expenses and a \$25 decrease in inventory.

Cash used by operating activities in 2003 was \$158. The net loss of \$616 included depreciation and amortization of \$107. Major sources of cash were a \$25 decrease in accounts receivable, a \$83 decrease in inventory, a \$30 decrease in prepaid expenses and a \$57 increase in payables. Major uses of cash was a \$77 decrease in accrued expenses.

Cash used by investing activities in 2004 was \$47 to purchase equipment primarily to improve productivity.

Cash used by investing activities in 2003 was \$158 to purchase equipment to improve productivity.

Cash used in financing activities in 2004 was \$2. Cash was used to repay long term debt.

Cash provided by financing activities in 2003 was \$10. Borrowings were from an unsecured note payable to Roulston Venture Capital L.P., a significant shareholder.

### LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2004 we had cash totaling \$97,001. During 2003 we had a line of credit with maximum borrowings of \$500. This line of credit was paid off and closed before December 31, 2003.

As of March 31, 2004 our current portion of long-term debt was \$1,503,855, which represents the principal portion of our debt that is due to be repaid by March 31, 2005. These debt maturities will need to be extended or refinanced during 2004, in order 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.

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

#### LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

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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 March 31, 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 granting 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.

### 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 of 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

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

The Annual Meeting of Stockholders of the Company was held on April 21, 2004. At the Annual Meeting, the Company's stockholders elected the following persons to serve as Directors of the Company for terms of one year or until their successors are duly elected and qualified. Votes were cast as follows:

DIRECTOR NOMIEE	FOR	WITHHOLD AUTHORITY	ABSTAIN
Enzo Costantino	1,523,894	0	712
Glen Gasparini	1,523,894	0	712
John R. Male	1,252,394	0	212
Michael J. Meier	1,523,894	0	712
Timothy I. Panzica	1,524,394	0	212
Thomas H. Roulston II	1,523,894	0	712
Louis Stokes	1,523,994	0	612

No additional proposals were voted upon at the Annual Meeting.

For a description of the bases used in tabulating the above-references votes, see the Company's definitive Proxy Statement used in connection with the Annual Meeting.

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

##### (a) Exhibits

Exhibit 10.1	Subordinated debenture issued to Independence Bank on April 5, 2004
Exhibit 31	Certification of principal officer and principal financial officer
Exhibit 32	Section 1350 Certification

(b) Reports on Form 8-K  
None

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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: May 12, 2004

/s/ Russell Ciphers, Sr.

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

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