

Edgar Filing: STELAX INDUSTRIES LTD - Form 10QSB

STELAX INDUSTRIES LTD  
Form 10QSB  
November 21, 2006

U.S. 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 September 30, 2006

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

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

Commission file number: 1-14219

Stelax Industries Ltd.

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

British Columbia

None

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

(IRS Employer Identification No.)

5515 Meadow Crest Drive, Dallas, Texas

75229

-----  
(Address of principal executive offices)

(Zip Code)

(972) 233-6041

-----  
(Registrant's telephone number)

4004 Beltline Road, Suite 107, Dallas TX 75244

-----  
(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 X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes X No \_\_\_\_\_

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of September, 2006: 49,631,319.

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STELAX INDUSTRIES LTD  
 CONSOLIDATED BALANCE SHEETS  
 (Presented in United States dollars)

ASSETS

	September 30, 2006
	----- Unaudited
CURRENT ASSETS	
Cash and cash equivalents	\$ -----
Total Current Assets	-----
 TOTAL ASSETS	 \$ ----- =====

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES	
Accounts payable	\$ 360,097
Payable to related parties	514,425
Accrued interest	1,930,427
Other accrued liabilities	122,113
Note payable	3,645,833
	-----
TOTAL CURRENT LIABILITIES	6,572,895
	-----
STOCKHOLDERS' DEFICIT	
Common stock - 50,000,000 Shares Authorized, No Stated Par Value; Issued and Outstanding 49,631,319 and 49,631,319 Shares at March 31, 2005 and September 30, 2005, respectively	26,750,090

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Additional Paid-In Capital	477,060
Accumulated Deficit	(33,800,045)
	-----
TOTAL STOCKHOLDERS' DEFICIT	(6,572,895)
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ -----

The accompanying notes are an  
integral part of these consolidated financial statements  
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STELAX INDUSTRIES LTD  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Presented in United States dollars)  
(Unaudited)

	Three Months Ended		Six
	September 30,		2006
	2006	2005	2006
	-----	-----	-----
SELLING, GENERAL &			
ADMINISTRATIVE EXPENSES	\$ 19,982	\$ 10,401	\$ 54
	-----	-----	-----
LOSS FROM OPERATIONS	(19,982)	(10,401)	(54)
OTHER (EXPENSE)			
Interest Expense	83,428	(83,812)	166
	-----	-----	-----
NET LOSS	\$ (103,410)	\$ (94,213)	\$ (220)
	=====	=====	=====
Weighted Average Shares of Common Stock - Basic and Diluted	49,631,319	49,631,319	49,631
	=====	=====	=====
NET LOSS PER SHARE			
Basic and Diluted	\$ (0.00)	\$ (0.00)	\$ (0)
	=====	=====	=====

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integral part of these consolidated financial statements  
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STELAX INDUSTRIES LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Presented in United States dollars)  
(Unaudited)

	Six Months Ended S 2005 -----
CASH FLOW FROM OPERATING ACTIVITIES	
Net Loss	\$ (220,587)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:	
Changes in Operating Assets and Liabilities	
Accounts Payable and Accruals	119,993
Payable to Related Parties	100,573 -----
NET CASH USED BY OPERATING ACTIVITIES	(21) -----
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21 -----
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ - =====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Interest Paid	\$ - =====
Income Taxes Paid	\$ - =====

The accompanying notes are an  
integral part of these consolidated financial statements  
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STELAX INDUSTRIES LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Presented in United States Dollars)  
Unaudited  
September 30, 2006

## (1) INTERIM FINANCIAL STATEMENTS

In the opinion of management, the interim financial statements reflect all adjustments necessary to a fair statement of the results for the interim periods presented. The results for the six months ended September 30, 2005 are not necessarily indicative of results to be expected for the entire year. These financial statements, notes and analyses should be read in conjunction with the Company's annual financials for the fiscal year ended March 31, 2005.

## (2) LOSS PER SHARE

Loss per share was based on the weighted average number of common shares of 49,631,319 and 49,631,319 outstanding during the six month period ended September 30, 2005 and 2004, respectively.

## (3) RELATED PARTY TRANSACTIONS

As of September 30, 2006 funds are owed by the Company totaling \$514,425 to the President of the Company and his affiliates.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Forward-Looking Information

The Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of the Form 10-Q contain forward-looking information. The forward-looking information involves risks and uncertainties that are based on current expectations, estimates, and projections about the Company's business, management's beliefs and assumptions made by management. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", and variations of such words and similar expressions are intended to identify such forward-looking information. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking information due to numerous factors, including, but not limited to, availability of financing for operations, successful performance of internal operations, impact of competition and other risks detailed below as well as those discussed elsewhere in this Form 10-QSB and from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, general economic and market conditions and growth rates could affect such statements.

### General

The Company's operations ceased in March 2002 when its operating subsidiary, Stelax (UK), Ltd., was placed into receivership following default on a loan held by Wells Fargo Business Credit, Inc. Because ownership of the subsidiary passed to the receiver at that time, Stelax (UK), Ltd. ceased to be consolidated with our financial statements. Nonetheless, July 2002 Wells Fargo Business Credit, Inc. obtained a judgment against the Company in the United District Court for

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the Southern District of New York. The judgment is carried on our balance sheet for the amount of \$3,645,833 plus interest which accrues daily. Accordingly, with no operations we have no revenue, and our expenses consist of accrued interest and professional fees necessary for our filings with regulatory agencies, expenses that have been funded by principals of the Company and their affiliates.

For the fiscal years ended March 31, 1999, and March 31, 2000, the Company developed the market for its Nuovinox product, a product that clads rebar with stainless steel. Much of this product development involved extensive testing to determine the product's utility for use in highways and bridges. This testing occurred principally in the United States for federal and state transportation authorities. By March 31, 2000, this testing process was completed sufficiently to commence sales, and the Company's assets were, at that time, unencumbered.

In July 2000, the Company's United States subsidiary entered into a loan and security agreement with Banc of America Commercial Finance Corporation (the "Loan Agreement") whereby the Company obtained a term loan as well as a revolving credit and credit accommodation. The maximum amount that could be borrowed under the Loan Agreement is \$5,750,000.

The Company shipped some product prior to entering into the Loan Agreement, but the proceeds of the Loan Agreement were used to refine production processes so that the Company could begin volume productions.

The Registrant's U.K. subsidiary commenced quantity production in the quarter ended June 2001 but was unable to increase production for sufficiently large volumes to obtain profitability or service debt, and in March 2002 the Registrant's U.K. subsidiary was placed into receivership and the receiver acquired control of the assets of the U.K. subsidiary.

In June 2003 an affiliate of the Registrant Company, through an intermediary company (Timaran Ltd.), made a contract with the Receiver to purchase all of the Stelax (U.K.) assets held by the Receiver. Timaran Ltd. started recommissioning and operating the Aberneath Facility. In August 2004 Timaran completed the purchase of the U.K. assets from the Receiver. Timaran has assigned all its rights and interest to Stelax International Ltd., a private company unassociated with Stelax Industries Ltd.

Quarter and six months ended September 30, 2005, compared to quarter and six months ended September 30, 2004

There was no revenue in the periods reported due to the Company's U.K. subsidiary, the Company's only operating entity, being transferred to a receiver in March 2002.

The Company's losses in the six month and three month periods arise from interest on the indebtedness to or judgment in favor of Wells Fargo Business Credit, Inc. The balance of the expenses for each period relate to expenses required for regulatory requirements which have been funded by principals of the Company.

### Liquidity and Capital Resources

With the judgment against the Company obtained by Wells Fargo Business Credit, Inc. plus interest exceeding \$4,000,000, the Company is unable to place any assets in the Company because they would be subject to garnishment. Accordingly, the Company has no operational capability.

During the respective periods, the Company's limited financial requirements were funded by private loans from former affiliates of the Company.

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### DECONSOLIDATION OF STELAX (U.K.)

Under generally accepted accounting principles consolidation is generally required for investments of more than 50% of the outstanding voting stock of an investee except when control is not held by the majority owner. Under these principles, bankruptcy represents a condition which can preclude consolidation as control rests with the bankruptcy court, rather than the majority owner.

March 7, 2002 an Administrative Receiver was appointed to Stelax (U.K.) pursuant to a debenture instrument executed over the whole of the assets of the company in favour of Bank of America Finance Corporation dated June 30, 2000 and assigned to Wells Fargo Business Credit Inc on April 20, 2001. Accordingly from March 7, 2002 control rests with the Receiver not Stelax Industries.

The results of Stelax (U.K.) have been consolidated up to March 7, 2002 thereafter Stelax (U.K) has been reported using the cost method. At March 7, 2002 Stelax (U.K.) had net assets of \$7,111,166 principally consisting of plant and equipment at the Aberneath facility in South Wales, United Kingdom. However Stelax Industries does not expect to recover any monies from the Receiver in respect of this investment. This investment has therefore been written off, and a loss of \$7,111,166 has been recorded in the income statement for the year to March 31, 2002.

### Inflation

The Company's operations may be impacted by the effects of inflation and changing prices as increased prices may reduce the demand for steel products. Additionally, the price of nickel has direct impact on the Company as nickel is an integral component to the price of the stainless steel utilized in Nuovinox.

### Item 3. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its President who acts as our Chief Financial Officer to allow timely decisions regarding required disclosure. During the 90-day period prior to the date of this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, and no corrective actions taken with regard to significant deficiencies or material weaknesses in such controls, subsequent to the date of our most recent evaluation of internal controls.

## PART - II

### Item 1. Legal Proceedings.

In March 2002 Stelax (U.K.) was placed into administrative receivership by a loan creditor, Wells Fargo Business Credit, Inc. which was exercising powers and remedies available to it by law and a Loan and Security Agreement, originally made on June 30, 2000, with Banc of America Commercial Finance Corporation and subsequently assigned on April 20, 2001 by Banc of America Finance Corporation to Wells Fargo Business Credit, Inc. Simultaneously with the original execution of the Loan and Security Agreement, Stelax Industries, Ltd., the registrant, executed a guarantee of the Loan and Security Agreement, and the guarantee was

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also assigned to Wells Fargo Business Credit, Inc.

When Stelax (U.K.) was placed into administrative receivership, all of the registrant's operations effectively ceased. On March 5, 2002, Wells Fargo Business Credit, Inc. filed a complaint in the United States District Court for the Southern District of New York against Stelax Industries, Ltd., Stelax (U.K.) and Stelax U.S.A., Inc. seeking damages because of failure to make payments pursuant to the aforementioned agreements. On July 2, 2002 the court entered a

judgment against all three defendants, and on February 4, 2003, entered a judgment of \$4,041,778.27 plus \$911.46 interest per day from August 22, 2002 to January 31, 2003. Post judgment interest was also awarded calculated from January 31, 2003.

As of the date hereof, this judgment has not been satisfied.

Item 3. Defaults Upon Senior Securities.

See Item 1 of Part II hereof.

Item 6. Exhibits and Reports on Form 8-K

None

### SIGNATURES

Pursuant to the requirements of the Securities exchange Act of 1934, registrant has duly caused this report to be signed on its behalf by the undersigned.

Stelax Industries, Ltd.

Dated: November 20, 2006

/s/ Harmon S. Hardy

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Harmon S. Hardy, President and  
Principal Financial Officer