



# Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

## INDEX

### PART I - FINANCIAL INFORMATION:

#### Item 1 - Condensed Consolidated Financial Statements:

Condensed Consolidated Balance Sheets - July 31, 2003 and October 31, 2002

Condensed Consolidated Statements of Operations  
Three Months and Nine Months Ended July 31, 2003 and 2002

Condensed Consolidated Statement of Changes of Stockholders' Deficit  
And Comprehensive Loss

Condensed Consolidated Statements of Cash Flows  
Nine Months Ended July 31, 2003 and 2002

Notes to Condensed Consolidated Financial Statements

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

#### Item 3 - Quantitative and Qualitative Disclosures About Market Risk

#### Item 4 - Controls and Procedures

### PART II - OTHER INFORMATION:

#### Item 1 - Legal Proceedings

#### Item 2 - Changes in Securities and Use of Proceeds

#### Item 3 - Defaults Upon Senior Securities

#### Item 4 - Submission of Matters to a Vote of Security Holders

#### Item 5 - Other Information

#### Item 6 - Exhibits and Reports on Form 8-K

### PART I--FINANCIAL INFORMATION

#### Item 1 Condensed Consolidated Financial Statements

#### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)  
(unaudited)

July 31,  
2003

---

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Assets

Current assets:

Cash and cash equivalents	\$	329
Marketable securities		80
Accounts receivable, net of allowance for doubtful accounts of \$492 for 2003 and \$495 for 2002		4,597
Accounts receivable, related parties		229
Inventories, net		7,692
Prepaid expenses and other assets		903

Total current assets 13,830

Property, plant and equipment, net 24,271

Other assets:

Goodwill		6,434
Other intangible assets, net of accumulated amortization of \$787 for 2003 and \$555 for 2002		1,562
Other		28
Assets of subsidiary held for sale		--

\$ 46,125

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

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)  
(unaudited)

July 31,  
2003

Liabilities and Stockholders' Deficit

Current liabilities:

Current portion of long-term debt	\$	6,88
Current portion of long-term debt, related parties		7
Accounts payable, trade		2,39
Accounts payable, related parties		80
Accrued expenses and customer deposits		2,47

Total current liabilities 12,63

Long-term debt, related parties 13,10

Long-term debt, net of current portion 20,15

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Deferred income tax liabilities	59
Liabilities of subsidiary held for sale	-
Commitments and contingencies	-
Mandatory redeemable preferred stock:	
Class of Series C Preferred Stock: 386,206 shares outstanding for 2003 and 2002	1,12
Class of Series D Preferred Stock: 16,071 shares outstanding for 2003	33
Stockholders' deficit:	
Common stock, par value \$.0001 per share; 40,000,000 shares authorized, 36,007,855 shares outstanding	
Preferred stock, 5,000,000 shares authorized; Class of Series C convertible preferred stock, par value \$.001, 4,600,000 authorized, 3,982,193 issued and outstanding for 2003 and 2002, 200,000 shares of undesignated preferred stock authorized	
Preferred stock, 200,000 shares authorized; Class of Series D convertible preferred stock, par value \$.001, 104,402 and 88,330 shares issued and outstanding in 2003 and 2002, respectively	-
Additional paid-in capital	11,87
Accumulated other comprehensive loss	(10
Accumulated deficit	(13,61
	-----
Total stockholders' deficit	(1,83
	-----
	\$ 46,12
	=====

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

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands except per share and share data)  
(unaudited)

	Three Months Ended		Nine M
	July 31, 2003	July 31, 2002	
Net sales	\$ 16,795	\$ 15,239	\$ 42,80
Cost of sales	14,390	12,400	37,44
	-----	-----	-----
Gross profit	2,405	2,839	5,35
Selling, general and administrative expenses	1,976	1,855	6,22
Insurance recovery	--	(325)	-
	-----	-----	-----

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Income (loss) from operations	429	1,309	(87)
Other income (expense):			
Interest expense, net	(889)	(839)	(2,57)
Other income (expense)	(59)	1	(5)
-----			
Income (loss) before income taxes, discontinued operations and cumulative effect of change in accounting principle	(519)	471	(3,50)
Income tax benefit	212	--	77
-----			
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	(307)	471	(2,73)
Loss from discontinued operations, net of tax	--	(364)	(4)
-----			
Income (loss) before cumulative effect of change in accounting principle	(307)	107	(2,77)
Cumulative effect of change in accounting principle	--	--	--
-----			
Net income (loss)	\$ (307)	\$ 107	\$ (2,77)
=====			

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

	Three Months Ended		Nine M
	July 31, 2003	July 31, 2002	July 31, 2003
-----			
Basic and diluted income (loss) per share attributable to common shareholders:			
From continuing operations:			
Basic	\$ .00	\$ .01	\$ (.0
=====			
Diluted	\$ .00	\$ .00	\$ (.0
=====			
Discontinued operations, net of tax:			
Basic	\$ .00	\$ (.01)	\$ (.0
=====			
Diluted	\$ .00	\$ (.00)	\$ (.0
=====			
Cumulative effect of change in accounting principle:			
Basic	\$ .00	\$ .00	\$ .0
=====			
Diluted	\$ .00	\$ .00	\$ .0
=====			

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Net income (loss):				
Basic	\$	.00	\$	.00
Diluted	\$	.00	\$	.00
Weighted average common shares outstanding:				
Basic		36,007,855		36,007,855
Diluted		149,915,726		128,701,226

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

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT AND COMPREHENSIVE LOSS  
(dollars in thousands)  
(unaudited)

	Comprehensive Loss	Common Stock		Series C Convertible Preferred Stock		Series D Convertible Preferred Stock	
		Shares	Amount	Shares	Amount	Shares	Amount
Balance at October 31, 2002	\$ --	36,007,855	\$3	4,368,399	\$ 5	88,330	\$--
Contribution to capital from sale of Champion to related party	--	--	--	--	--	--	--
Fair value adjustment on redeemable preferred stock	--	--	--	--	--	--	--
Tax effect of sale of coaches to DC Investments Leasing, LLC	--	--	--	--	--	--	--
Extension of stock options	--	--	--	--	--	--	--
Issuance of mandatory redeemable preferred stock	--	--	--	--	--	32,143	--
Assignment of Mandatory redeemable preferred stock	--	--	--	--	--	--	--
Unrealized loss on available-for-sale marketable securities	(57)	--	--	--	--	--	--
Net loss	(2,779)	--	--	--	--	--	--

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Total comprehensive loss	\$(2,836)						
	=====						
Balance at July 31, 2003	36,007,855	\$3	4,368,399	\$ 5	120,473	\$--	
	=====						

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

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	Nine ----- July 31, 20 -----
Cash flow from operating activities:	
Loss from continuing operations	\$ (2,7
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:	
Depreciation and amortization	2,2
Goodwill impairment loss	
Other	(5
Changes in operating assets and liabilities:	
Accounts receivable, net	(1,2
Inventories, net	(3
Other, net	(2
	-----
Net cash used in operating activities	(2,9
	-----
Cash flows from investing activities:	
Capital expenditures	(5
Other	
	-----
Net cash used in investing activities	(5
	-----
Cash flows from financing activities:	
Advances from (repayments to) related parties, net	(1,4
Net borrowings on lines of credit	1,9
Borrowings (repayments) on long-term debt, including related parties	2,4
	-----
Net cash provided by financing activities	2,9

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Net cash provided by (used in) discontinued operations		(
	-----	
	-----	
Decrease in cash and cash equivalents		(5
Cash and cash equivalents, beginning of period		9
	-----	
Cash and cash equivalents, end of period	\$	3
	=====	
Interest paid	\$	2,5
	=====	
Taxes paid	\$	
	=====	

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

		Nine Month
		-----
		July 31, 2003
		-----
Supplemental disclosure of noncash operating, investing and financing activities:		
Acquisition of coaches and equipment through issuance of debt	\$	2,304
Contribution to capital from sale of Champion to related party	\$	1,142
Issuance of mandatory redeemable preferred stock in conjunction with the sale of Champion	\$	338
Assignment and assumption of mandatory redeemable preferred stock to Fair Holdings	\$	675
Tax effect of sale of coaches to a related party	\$	96
Fair value change on mandatory redeemable preferred stock	\$	275
Reclassification of debt due to assumption of credit agreement by Fair Holdings	\$	1,488
Conversion of debt to preferred stock and additional paid-in capital	\$	--
Conversion of accounts payable, related parties to debt	\$	--
Purchase price adjustment and conversion of accounts payable to debt for United	\$	--

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

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except share and per-share data)  
(unaudited)

### 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Description of Business:

Obsidian Enterprises, Inc. ("Obsidian Enterprises"), formerly Danzer Corporation, was reorganized (the "Reorganization") through an Acquisition and Plan of Reorganization with U.S. Rubber Reclaiming, Inc. and Related Entities ("U.S. Rubber Companies"), which was consummated on June 21, 2001 (the "Effective Date"). The Acquisition and Plan of Reorganization of Obsidian Enterprises with U.S. Rubber Companies was accounted for as a reverse acquisition as the shareholders of the U.S. Rubber Companies owned a majority of the outstanding stock of Obsidian Enterprises subsequent to the Acquisition and Plan of Reorganization. For accounting purposes, U.S. Rubber Reclaiming, Inc. is deemed to have acquired Obsidian Enterprises.

Pursuant to the Plan of Acquisition and Reorganization, United Expressline, Inc. was acquired July 31, 2001.

The accompanying financial data as of July 31, 2003 and for the three and nine months ended July 31, 2003 and 2002 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The October 31, 2002 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the period ended October 31, 2002. The Company follows the same accounting policies in preparation of interim reports.

In the opinion of management, all adjustments (which include normal recurring adjustments except as disclosed herein) necessary to present a fair statement of financial position as of July 31, 2003, results of operations for the three and nine months ended July 31, 2003 and cash flows and stockholders' deficit for the nine months ended July 31, 2003 have been made. The results of operations for the three and nine months ended July 31, 2003 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

The entities resulting from the merger described above, considered accounting subsidiaries of U.S. Rubber Reclaiming, Inc. (the accounting acquirer) and legal subsidiaries of Obsidian Enterprises, Inc. (formerly Danzer) after the Acquisition and Plan of Reorganization, are as follows:

U.S. Rubber Reclaiming, Inc. ("U.S. Rubber", the accounting acquirer), which is engaged in reclaiming scrap butyl rubber into butyl reclaim for resale to manufacturers of rubber products.

Obsidian Enterprises, Inc. (formerly Danzer, the legal acquirer), a holding company.

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except share and per-share data) (unaudited)

#### 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Danzer Industries, Inc. ("Danzer Industries"), which is principally engaged in the design, manufacture and sale of truck bodies and cargo trailers.

Pyramid Coach, Inc. ("Pyramid"), which is engaged in the leasing of coaches, designed and fitted out for use for travel by country, rock bands and other business enterprises, primarily on weekly to monthly leases. The coach leasing segment also includes the assets, liabilities, equity and results of operations of DW Leasing, LLC ("DW Leasing"), Obsidian Leasing Company, Inc. ("Obsidian Leasing"), formed November 1, 2001 and DC Investments Leasing, LLC ("DC Investments Leasing"), formed December 13, 2002. DW Leasing and DC Investments Leasing are controlled by individuals who are also controlling shareholders of Obsidian Enterprises, Inc. and, accordingly, Pyramid. DW Leasing, Obsidian Leasing and DC Investments Leasing also own the majority of the coaches operated by Pyramid. All intercompany transactions are eliminated in consolidation.

United Expressline, Inc. ("United") manufactures and sells general use cargo trailers and specialty trailers used in the racing industry and for other special purposes.

Champion Trailer, Inc. ("Champion") manufactures and sells transport trailers to be used primarily in the auto racing industry. During October 2002, the Company's Board of Directors agreed to a plan to dispose of substantially all assets and liabilities of Champion as further discussed in Note 3. The sale of Champion was completed January 30, 2003. Accordingly, the operations of Champion are classified as discontinued operations in the accompanying financial statements.

#### Basis of Presentation:

Over the past year, the Company has undertaken various actions to improve its operations and liquidity. Such actions include the sale of Champion described in Note 3, as well as conversion of debt to equity and refinancing of certain of its debt agreements as described in detail in the Company's 10-K for the year ended October 31, 2002. Management believes that the Company has financing agreements in place to provide adequate liquidity and working capital throughout fiscal 2003. However, there can be no assurance that such working capital and liquidity will in fact be adequate. Therefore, the Company may be required to draw upon other liquidity sources. The Company has therefore secured an increased financial commitment from Fair Holdings, Inc. ("Fair Holdings"), an entity controlled by the Company's Chairman, to provide, as needed, additional borrowings under a \$8,000 line of credit agreement, which expires January 9, 2005. As of July 31, 2003, availability under the agreement is approximately \$2,480.

The Company incurred a net loss for the year ended October 31, 2002 of \$6,330, which included an asset impairment charge of \$720, cumulative effect of change in accounting principle of \$2,015 and a loss from discontinued operations of \$1,040. In addition, the Company incurred a loss from continuing operations of \$307 and \$2,730 for the three and nine months ended July 31, 2003, respectively. Several of the Company's subsidiaries were acquired in highly leveraged transactions and this factor combined with the loss has contributed to its failure to meet certain financial covenants required by two of its lenders. As of July 31, 2003, the lenders have waived all covenant violations.

# Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

## OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except share and per-share data) (unaudited)

#### 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In view of these matters realization of assets and satisfaction of liabilities in the ordinary course of business is dependent on the Company's ability to generate sufficient cash flow to satisfy its obligations on a timely basis, maintain compliance with its financing agreements and continue to receive financing support from Fair Holdings to provide liquidity if needed.

Management, as a part of its plan towards resolving these issues and generating positive cash flow and earnings, has taken the actions as described in the Company's 10-K for the year ended October 31, 2002 as well as the actions described below during the nine months ended July 31, 2003.

- o During 2002, the Board of Directors authorized the Chairman of the Board to explore various options regarding the operations at Champion. Options included divestiture, restructuring of operations or closing the facility. It was determined in the best interests of the Company to sell Champion. On January 30, 2003, the Company completed the sale of substantially all assets of Champion to an entity owned by Messrs. Durham and Whitesell, Chairman and President of the Company, respectively. The sale resulted in an increase in equity of \$1,142 as further described in Note 3.
- o During December 2002, the Company sold certain coaches of Obsidian Leasing to DC Investments Leasing for assumption of the existing debt. DC Investments Leasing then refinanced this debt at terms more favorable than the previous terms.
- o On April 1, 2003, the Company obtained an increase in its available line of credit with Fair Holdings to \$8,000.
- o On January 3, 2003, Obsidian Leasing refinanced debt due to former shareholders in the amount of \$928 with Fair Holdings at terms further described in Note 4.
- o During January 2003, United and U.S. Rubber obtained modifications to provide less stringent requirements on certain financial covenants with their respective lenders.
- o On March 28, 2003, Fair Holdings acquired the line of credit and term debt due to the senior lender of Danzer in the amount of \$1,488 under an assignment and assumption agreement. The maturity date of the line of credit included in the assignment and assumption agreement was extended to April 2006, and the debt covenants required by the senior lender were waived through the end of the term. All other terms of the assumed notes remain the same.
- o During March 2003, United completed a compensation review and update and provided a revised pay scale which realigns the Company with its industry and reduces compensation costs. United also continues to develop its new production facility to increase productivity and plant efficiency.

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

- o During 2003, U.S. Rubber has continued to consolidate its butyl reclaiming operations from two plants to one to maximize production and efficiently utilize equipment. The consolidation has caused some pieces of equipment to be temporarily idle until the Company completes its implementation of a new production process for "fine grind rubber". Existing and new equipment will be required to complete the "fine grind" production line. The new process will maximize the use of the existing raw materials in the Company's existing butyl reclaim production and also provide additional products of natural rubber.

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except share and per-share data)  
(unaudited)

1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The above factors combined with additional actions by management at the operating subsidiaries are expected to contribute to an increase in the Company's working capital and liquidity.

Although management believes the actions described above will improve operations and liquidity, there can be no assurance that such actions will sufficiently improve operations or liquidity. In addition, management is continuing to explore various opportunities to refinance the current outstanding debt.

Significant Accounting Policies:

Earnings Per Share:

Basic per-share amounts are computed, generally, by dividing net income or loss attributable to common shareholders by the weighted-average number of common shares outstanding. Diluted per-share amounts are computed similar to basic per-share amounts except that the weighted-average shares outstanding are increased to include additional shares for the assumed conversion of Company's Series C and Series D Preferred Stock and assumed exercise of stock options and warrants, if dilutive.

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except share and per-share data)  
(unaudited)

1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basic and diluted earnings (loss) per share have been computed as follows:

Three Months Ended		Nine Mo
July 31, 2003	July 31, 2002	July 31, 2003

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Income (loss) before discontinued operations and cumulative effect of change in accounting principle	\$	(307)	\$	471	\$	(2,730)
Change in fair value of mandatory redeemable preferred stock		411		(82)		275
-----						
Income (loss) attributable to common shareholders before discontinued operations and cumulative effect of change in accounting principle		104		389		(2,455)
Loss from discontinued operations, net of tax		--		(364)		(49)
Cumulative effect of change in accounting principle		--		--		--
-----						
Net income (loss) attributable to common shareholders	\$	10-4	\$	25	\$	(2,504)
=====						
Weighted average common shares outstanding:						
Basic		36,007,855		36,007,855		36,007,855
Diluted		149,915,726		128,701,226		36,007,855
=====						
Earnings (loss) per share attributable to common shareholders:						
From continuing operations:						
Basic	\$	.00	\$	.01	\$	(.07)
Diluted		.00		.01		(.07)
Discontinued operations, net of tax:						
Basic		.00		(.01)		(.00)
Diluted		.00		(.00)		(.00)
-----						
Cumulative effect of change in accounting principle:						
Basic		.00		.00		.00
Diluted		.00		.00		.00
-----						
Net income (loss):						
Basic	\$	.00	\$	.00	\$	(.07)
Diluted	\$	.00	\$	.00	\$	(.07)
=====						

The Company's Series C Preferred Stock and Series D Preferred Stock, which have all the rights and privileges of the Company's common stock, are convertible at rates of 20 to 1 and 175 to 1, respectively. The inclusion of these potential common shares in the calculation of loss per share would have an antidilutive effect. However, pursuant to the Acquisition Agreement and Plan of Reorganization entered into in connection with the Reorganization, these shares will be converted to common stock immediately upon approval by the stockholders.

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Accordingly, we are presenting the following pro forma information to indicate the effect on earnings per share had such shares been converted to common shares for the periods presented.

### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except share and per-share data) (unaudited)

#### 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pro forma basic and diluted loss per share have been computed below as if the Series C and Series D Preferred Stock were converted to common stock. For the three and nine months ended July 31, 2003, the Series C Preferred Stock has been reflected on a weighted average basis outstanding as common shares of 87,367,980. For the three and nine months ended July 31, 2002, the Series C Preferred Stock has been reflected on a weighted average basis outstanding as common shares of 87,167,980 and 79,111,259, respectively. The Series D Preferred Stock has been reflected on a weighted average basis outstanding as common shares of 21,082,775 and 19,283,594 for the three and nine months ended July 31, 2003, respectively. There were no Series D Preferred Stock shares issued or outstanding during the three and nine months ended July 31, 2002.

	Three Months Ended		Nine
	July 31, 2003	July 31, 2002	July 31, 2003
Pro forma weighted average common shares outstanding:			
Basic	144,458,610	123,175,835	142,659,42
Diluted	149,915,726	128,701,226	142,659,42
Pro forma basic and diluted income (loss) per share, attributable to common shareholders:			
From continuing operations:			
Basic	\$ .00	\$ .00	\$ (.02)
Diluted	\$ .00	\$ .00	\$ (.02)
Discontinued operations, net of tax:			
Basic	\$ .00	\$ (.00)	\$ (.00)
Diluted	\$ .00	\$ (.00)	\$ (.00)
Cumulative effect of change in accounting principle:			
Basic	\$ .00	\$ .00	\$ .00
Diluted	\$ .00	\$ .00	\$ .00
Net income (loss):			
Basic	\$ .00	\$ .00	\$ (.02)

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Diluted	\$	.00	\$	.00	\$	(.02)
	=====		=====		=====	

The pro forma net income (loss) per share is presented for informational purposes only and is not indicative of the weighted average common shares outstanding or net income (loss) per share presented in accordance with accounting principles generally accepted in the United States of America.

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (in thousands except share and per-share data)  
 (unaudited)

1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Company has a note payable agreement which is convertible by the holder to common stock totaling 5,000,000 shares at a conversion rate of \$0.10 per share. In addition, the Company has options outstanding to purchase a total of 800,000 shares of common stock, at a weighted average exercise price of \$.09. These additional shares have been included in the calculation of weighted average common shares outstanding on a diluted basis for the three-month periods ended July 31, 2003 and 2002, respectively. However, because the Company incurred a loss for the nine months ended July 31, 2003 and 2002, respectively, the inclusion of those potential common shares in the calculation of diluted loss per share would have an antidilutive effect.

Asset Impairment

The Company's truck body division at Danzer continues to negatively impact the Company's cash flows. The trailer production line was put in place in the fourth quarter of 2002 to support the production needs at United and also provide a new product line to the existing customers of Danzer and open a potential new market along the East coast of the U.S. Given the current state of the telecommunications industry and economic conditions, management will continue to evaluate the operations and progress with the implementation of the trailer production. Management also expects to make a decision to continue or discontinue operations by the end of fiscal 2003. In conjunction with the analysis of the Danzer operations, we are also analyzing the potential for asset impairment at the Danzer operation. Total assets of Danzer as of July 31, 2003 were \$3,395, which consists of \$1,396 of current assets and \$1,999 of net property and equipment, and represents approximately 7% of total consolidated assets.

Recently Issued Pronouncements:

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN No. 46), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No., 51. This Interpretation addresses the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first interim period beginning after June 15, 2003, to variable interest entities in which an entity holds a variable

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

interest that it acquired prior to February 1, 2003. DW Leasing and DCI Leasing, which are included in the Company's consolidated financial statements, may be subject to the provisions of FIN No. 46. However, management does not expect the adoption of FIN No. 46 to have a material impact on the Company's financial position, results of operations, cash flows, or its debt covenants as these entities have generated negative operating results in the past and the current operating model does not anticipate income in excess of losses previously recognized in the consolidated financial statements. Should future operating results exceed expectations, income generated by these entities in excess of previously recognized losses would be charged to minority interest in the consolidated statement of operations and recognized as minority interest on the consolidated balance sheet.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. SFAS 148 amends FASB Statement No. 123 (SFAS 123), Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company plans to continue accounting for stock options under Accounting Principles Bulletin Opinion No. 25, Accounting for Stock Issued to Employees, (APB No. 25) and has adopted the disclosure provisions of SFAS 148.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends SFAS No. 133. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement is effective for contracts entered into or modified after June 30, 2003. We do not anticipate that the adoption of this statement will have a significant impact on our financial statements.

### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except share and per-share data) (unaudited)

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The standard further defines the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity or report between the liability and equity section of the balance sheet. The standard requires that those instruments be classified as liabilities in statements of financial position. This standard is effective for interim periods beginning after June 15, 2003. We believe the adoption of this standard will result in mandatory redeemable preferred stock currently reported on our balance sheet between equity and liabilities being reclassified as a liability. We do not expect the adoption of SFAS No. 150 to have a material impact on the Company's results of operations, cash flows, or its debt covenants.

#### 2. INVENTORIES

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Inventories are stated at the lower-of-cost (first-in, first-out method) or market and are comprised of the following components:

	July 31, 2003	October 31, 2002	
Raw materials	\$ 4,819	\$ 3,655	
Work-in-process	618	709	
Finished goods	2,614	3,417	
Valuation reserve	(359)	(466)	
Total	\$ 7,692	\$ 7,315	

### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except share and per-share data) (unaudited)

#### 3. DISCONTINUED OPERATIONS

On October 30, 2002, the Company's Board of Directors agreed to sell the assets of Champion to an entity controlled by Messrs. Durham and Whitesell (Officers of the Company) for the assumption of all liabilities of Champion excluding its subordinated debt. The decision to divest Champion was based on the entity's inability to achieve profitable operations in the foreseeable future without substantial cash infusion. The Company also agreed in principal to settle the outstanding subordinated debt due to Markpoint Equity Fund J.V. ("Markpoint") from Champion in exchange for a cash payment of \$675 and issuance to the debt holder of 32,143 shares of the Company's Series D Preferred Stock. In addition, the agreement provides Markpoint the option to require the Company to repurchase these shares at a price of \$21 per share. The sale of Champion was completed on January 30, 2003. Champion is accounted for as a discontinued operation and therefore the results of operations and cash flows have been removed from the Company's continuing operations for all periods presented. In addition, assets and liabilities of Champion included in the sale have been removed from the consolidated balance sheet as of July 31, 2003 and are included in the consolidated balance sheet as of October 31, 2002 as "Assets of subsidiary held for sale" and "Liabilities of subsidiary held for sale," respectively.

The sale of Champion resulted in an increase in equity of the Company of \$1,142, net of tax of \$97. No gain or loss was recognized on the sale because of the involvement of related parties.

A summary of the Company's discontinued operations for the three and nine months ended July 31, 2003 and 2002 are as follows:

Three Months Ended		Nine Months Ended	
July 31, 2003	July 31, 2002	July 31, 2003	July 31, 2002

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Net sales	\$	--	\$	236	\$	170	\$	2,629
Operating expenses		--		(530)		(286)		(3,501)
Interest		--		(70)		(85)		(213)
Other		--		--		127		--
Tax benefit		--		--		25		--
-----								
Net loss	\$	--	\$	(364)	\$	(49)	\$	(1,085)
=====								

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except share and per-share data)  
(unaudited)

3. DISCONTINUED OPERATIONS, CONTINUED

A summary of assets and liabilities of Champion held for sale at October 31, 2002 are as follows:

	October 31, 2002
	-----
Inventories	\$ 551
Other current assets	177
Property and equipment, net	715
Other	95
	-----
	\$ 1,538
	=====
Accounts payable and accrued expenses	\$ 709
Customer deposits	313
Long-term debt, related parties	1,826
	-----
	\$ 2,848
	=====

4. FINANCING ARRANGEMENTS

Obsidian Leasing:

On January 3, 2003, Obsidian Leasing refinanced debt in the amount of \$928 to former shareholders of Pyramid and related companies. Terms of the new note with Fair Holdings include monthly interest payments of 13% of the outstanding principal amount and a balloon principal payment in January 2006.

On December 17, 2002, Obsidian Leasing sold four coaches to DC Investments Leasing in exchange for DC Investments Leasing's satisfaction of the debt outstanding on such coaches. In addition, DC Investments Leasing also acquired five additional coaches that were previously to be purchased by the Company thereby eliminating the Company's existing purchase commitment for such coaches. The Company refinanced the debt on the four coaches in addition to financing the five additional coaches. DC Investments Leasing entered into an agreement with

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

First Indiana for \$2,741 of the debt with interest payable at prime plus 1/2% and a maturity of December 2007. DC Investments Leasing also incurred debt with Fair Holdings for the remaining 20% of the net book value of the transferred and new coaches. Terms of the debt with Fair Holdings include monthly interest payments on the principal amount of \$677 at 14% and a maturity of January 2008. DC Investments Leasing also entered into a management agreement with Pyramid under which all nine coaches described above will be leased by Pyramid.

United:

On December 26, 2002, United amended its credit agreement to provide additional working capital during the winter months. The amendment included a "temporary overline" line of credit with maximum borrowings not to exceed the lesser of \$650 or the remainder of the borrowing base less the outstanding principal amount of the revolving line of credit. Interest is payable monthly at a rate of prime plus 3/4%. The temporary overline line of credit matured on June 30, 2003. The Company is currently in negotiations with its lender to convert the temporary overline to additional availability under the current line of credit. Should such an agreement not be reached, the line will be repaid from borrowings under the Company's line of credit with Fair Holdings and from operating cash flow.

### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except share and per-share data) (unaudited)

#### 4. FINANCING ARRANGEMENTS, CONTINUED

United was in technical default of certain loan covenants with its subordinated lender at July 31, 2003. United has obtained a waiver of the violations from the lender.

Obsidian Enterprises:

On April 1, 2003, Obsidian Enterprises, Inc.'s line of credit with Fair Holdings was amended. Maximum borrowings were increased from \$5,000 to \$8,000.

At October 31, 2002, the Company was in violation of negative covenants with Renaissance US Growth & Income Trust PLC and FBSUS Special Opportunities Trust PLC, the holders of debentures that completed the financing of United. During January 2003, the Company received a waiver of the violations and obtained modifications of terms with the debenture holders to provide for less stringent covenants. In exchange for the waiver and modifications, the Company issued warrants to the debenture holders to purchase up to 16,000 shares of the Company's common stock at an exercise price of \$.20 per share.

Danzer:

As of January 31, 2003, Danzer was in violation of certain covenants included in its credit agreement and First Forbearance Agreement dated October 14, 2002 with its senior lender. On February 28, 2003, the Company and the lender entered into a Second Forbearance Agreement waiving these violations. On March 28, 2003, the credit agreement was assumed by Fair Holdings under an assumption and continuation agreement. An amendment was made as of the effective date of the agreement to extend the maturity date of the line of credit agreement to April 1, 2006 and the debt covenants required by the senior lender were waived through the end of the term. All other terms of the agreement will continue as stated in the original agreement dated August 15, 2001.

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

### 5. MANDATORY REDEEMABLE PREFERRED STOCK

In conjunction with the sale of Champion discussed in Note 3, the Company agreed to settle the outstanding subordinated debt due to Markpoint from Champion in exchange for a cash payment of \$675 and issuance to the debt holder of 32,143 shares of the Company's Series D Preferred Stock. The agreement provides Markpoint the option to require the Company to repurchase these shares at a price of \$21 per share. The repurchase option is available to Markpoint as follows: 16,072 shares during the period May 1, 2003 to June 1, 2003 and 16,071 shares during the period November 1, 2003 to December 1, 2003. On May 12, 2003, under an Assignment Agreement, the Company transferred all rights, title and interest in the Put Option to Fair Holdings. Markpoint exercised its option on May 12, 2003 and was paid \$338 by Fair Holdings. The exercise of the option resulted in the reduction of the liability and an increase in additional paid in capital of \$338.

### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except share and per-share data) (unaudited)

### 6. STOCKHOLDERS' DEFICIT

#### Stock Options

The Company accounts for stock-based compensation under the provisions of APB No. 25. The Company has adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation expense is recognized if the exercise price of stock options equals the fair market value of the underlying stock at the date of grant. Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's basic and diluted net income (loss) per share would have been as follows:

	Three Months Ended		Nine M	
	July 31, 2003	July 31, 2002	July 31, 2003	
Net income (loss) as reported	\$ (307)	\$ 107	\$	(2,77
Deduct total stock-based employee compensation expense determined under fair value methods	--	--	-	-
Pro forma net income (loss)	(307)	107	(2,77	(2,77
Income (loss) per share:				
As reported:				
Basic	\$ .00	\$ .00	\$	(.00
Diluted	\$ .00	\$ .00	\$	(.00
Pro forma:				
Basic	\$ .00	\$ .00	\$	(.00
Diluted	\$ .00	\$ .00	\$	(.00

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2000 and 1999, respectively: risk-free interest rates of 6.4 and 5.5 percent; dividend yield of 0 percent in both years; expected lives of 5 years; and volatility of 978 and 170 percent. The estimated weighted average fair value of options granted during 2000 and 1999 were \$0.10 and \$0.05 per share, respectively.

### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except share and per-share data) (unaudited)

#### 7. BUSINESS SEGMENT DATA AND GEOGRAPHIC DATA

The Company operates in three industry segments comprised of trailer and related transportation equipment manufacturing (trailer manufacturing); coach leasing; and butyl rubber reclaiming. All sales are in North and South America primarily in the United States, Canada and Brazil. Selected information by segment follows:

	Three Months Ended July 31, 2003		
	Trailer Manufacturing	Coach Leasing	Butyl Rubber Reclaiming
Sales:			
Domestic	\$ 10,402	\$ 2,562	\$ 2,338
Foreign	1,132	--	361
Total	\$ 11,534	\$ 2,562	\$ 2,699
Cost of goods sold	\$ 10,378	\$ 1,525	\$ 2,487
Income (loss) before taxes	\$ (427)	\$ 153	\$ (141)
Identifiable assets	\$ 20,163	\$ 14,167	\$ 10,993
Depreciation and amortization expense	\$ 176	\$ 281	\$ 329
Interest expense	\$ 357	\$ 311	\$ 117

\*Identifiable income (loss) before taxes, as stated above  
Corporate-level loss before taxes, not identifiable with a specific segment

Total loss before taxes

\*\*Identifiable assets, as stated above  
Corporate-level intangibles  
Other corporate-level assets

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Total assets

\*\*\*Identifiable interest expense, as stated above  
Corporate-level interest expense, not identified with a specific segment

Total interest expense

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except share and per-share data)  
(unaudited)

7. BUSINESS SEGMENT DATA AND GEOGRAPHIC DATA, CONTINUED

	Three Months Ended July 31, 2002		
	Trailer Manufacturing Reclaiming	Coach Leasing	Butyl Rubber
Sales:			
Domestic	\$ 10,475	\$ 1,959	\$ 2,672
Foreign	--	--	133
Total	\$ 10,475	\$ 1,959	\$ 2,805
Cost of goods sold	\$ 8,952	\$ 997	\$ 2,451
Income before taxes	\$ 34	\$ 163	\$ 305
Identifiable assets	\$ 19,897	\$ 12,670	\$ 10,650
Depreciation and amortization expense	\$ 178	\$ 169	\$ 289
Interest expense	\$ 321	\$ 365	\$ 122

\*Identifiable income before taxes, as stated above  
Corporate-level loss before taxes, not identifiable with a specific segment

Total income before taxes

\*\*Identifiable assets, as stated above  
Corporate-level intangibles

Total assets

\*\*\*Identifiable interest expense, as stated above

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Corporate-level interest expense, not identified with a specific segment

Total interest expense

### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share and per-share data)

(unaudited)

#### 7. BUSINESS SEGMENT DATA AND GEOGRAPHIC DATA, CONTINUED

	Nine Months Ended July 31, 2003		
	Trailer Manufacturing Reclaiming	Coach Leasing	Butyl Rubber
Sales:			
Domestic	\$ 27,391	\$ 5,082	\$ 6,989
Foreign	2,355	--	985
Total	\$ 29,746	\$ 5,082	\$ 7,974
Cost of goods sold	\$ 27,132	\$ 2,879	\$ 7,434
Loss before taxes	\$ (2,317)	\$ (246)	\$ (669)
Identifiable assets	\$ 20,163	\$ 14,167	\$ 10,993
Depreciation and amortization expense	\$ 364	\$ 704	\$ 570
Interest expense	\$ 1,038	\$ 914	\$ 356

\*Identifiable loss before taxes, as stated above

Corporate-level loss before taxes, not identifiable with a specific segment

Total loss before taxes

\*\*Identifiable assets, as stated above

Corporate-level intangibles  
Other corporate-level assets

Total assets

\*\*\*Identifiable interest expense, as stated above

Corporate-level interest expense, not identified with a specific segment

Total interest expense

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except share and per-share data)  
(unaudited)

7. BUSINESS SEGMENT DATA AND GEOGRAPHIC DATA, CONTINUED

	Nine Months Ended July 31, 2002		
	Trailer Manufacturing Reclaiming	Coach Leasing	Butyl Rubber
Sales:			
Domestic	\$ 30,210	\$ 4,513	\$ 7,134
Foreign	--	--	445
Total	\$ 30,210	\$ 4,513	\$ 7,579
Cost of goods sold	\$ 26,134	\$ 2,336	\$ 6,850
Loss before taxes	\$ (772)	\$ (237)	\$ (297)
Identifiable assets	\$ 19,897	\$ 12,670	\$ 10,650
Depreciation and amortization expense	\$ 639	\$ 579	\$ 800
Interest expense	\$ 936	\$ 1,097	\$ 430
*Identifiable income (loss) before taxes, as stated above Corporate-level loss before taxes, not identifiable with a specific segment			
Total loss before taxes			
**Identifiable assets, as stated above Corporate-level intangibles			
Total assets			
***Identifiable interest expense, as stated above Corporate-level interest expense, not identified with a specific segment			
Total interest expense			

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except share and per-share data)  
(unaudited)

### 7. BUSINESS SEGMENT DATA AND GEOGRAPHIC DATA, CONTINUED

Obsidian Enterprises, Inc. (legal parent) allocates selling, general and administrative expenses to the respective companies primarily based on a percentage of sales. For the three months and nine months ended July 31, 2003 and 2002, allocated corporate expenses by segment were as follows:

	Three Months Ended		Nine Months Ended	
	July 31, 2003	July 31, 2002	July 31, 2003	July 31, 2002
Trailer manufacturing	\$ 199	\$ 146	\$ 856	\$
Coach leasing	42	27	134	
Butyl rubber reclaiming	45	38	234	
	\$ 286	\$ 211	\$ 1,224	\$

### 8. RELATED PARTIES

The Company makes advances, receives loans and conducts other business transactions with affiliates resulting in the following amounts for the periods ended:

	July 31, 2003	October 31, 2002
Balance sheet:		
Current assets:		
Accounts receivable, Obsidian Capital Partners	\$ 156	\$ 181
Accounts receivable, Fair Holdings	12	--
Accounts receivable, Obsidian Capital Company	12	13
Accounts receivable, other affiliated entities	49	12
Total assets	\$ 229	\$ 206
Current liabilities:		
Accounts payable, Obsidian Capital Company	\$ 274	\$ 279
Accounts payable, stockholders	321	338
Accounts payable, DC Investments and Fair Holdings	197	42

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Accounts payable, other affiliated entities	13	9
Notes payable, Fair Holdings	73	--
Long-term portion:		
Notes payable, DC Investments	700	700
Notes payable, Fair Holdings	7,025	3,020
Line of credit, Fair Holdings	5,382	1,798
-----		
Total liabilities	\$ 13,985	\$ 6,186
=====		

### OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands except share and per-share data) (unaudited)

#### 8. RELATED PARTIES, CONTINUED

	Three Months Ended		Nine Mo
	July 31, 2003	July 31, 2002	July 31, 2003
-----			
Statement of operations:			
Interest expense, DC Investments and Fair Holdings	\$ 432	\$ 58	\$ 935
Interest expense, Obsidian Capital Partners	\$ --	\$ --	\$ --
Rent expense, Obsidian Capital Company	\$ 15	\$ 16	\$ 30
Rent expense, Fair Holdings	\$ 13	\$ --	\$ 31

Related-party amounts classified as current reflect those portions of the total receivable or payable that were currently due in accordance with the terms, or were collected or paid subsequent to July 31, 2003 or October 31, 2002, respectively. Amounts classified as long term represent amounts not currently due, amounts that are expected to be converted to equity subsequent to July 31, 2003 and October 31, 2002, respectively, or amounts converted to long-term debt subsequent to July 31, 2003.

In addition to the transactions described above, Fair Holdings acquired from the Company all rights and interest in a Put Option for Series D Preferred Stock held by Markpoint as discussed in Note 5. Fair Holdings has also agreed to purchase shares subject to the second put option held by Markpoint which may be exercised in November 2003.

#### 9. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company is liable for contract completion and product performance. In the opinion of management, such obligations will not significantly affect the Company's financial position or results of operations.

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

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

#### IMPORTANT NOTE ABOUT FORWARD-LOOKING STATEMENTS.

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The Company and its representatives may from time to time make written or oral forward-looking statements, including statements included in or incorporated by reference into this Quarterly Report on Form 10-Q and the Company's other filings made with the Securities and Exchange Commission. These forward-looking statements are based on management's views and assumptions and involve risks, uncertainties and other important factors, some of which may be beyond the control of the Company, that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Item 2., Management's Discussion and Analysis of Financial Condition and Results of Operations, in this Form 10-Q. Readers should carefully review the risks described in this and other documents that the Company files from time to time with the Securities and Exchange Commission. The forward-looking statements speak only as of the date that they are made and the Company undertakes no obligation to update or revise any of the forward-looking statements.

#### OVERVIEW

The Company operates in three industry segments, comprised of trailer and related transportation equipment manufacturing, butyl rubber reclaiming, and coach leasing. Trailer and related transportation equipment manufacturing includes the operations of United and Danzer Industries. Butyl rubber reclaiming includes the operations of U.S. Rubber and coach leasing includes the operations of Pyramid, DW Leasing, Obsidian Leasing and DC Investments Leasing.

Champion is accounted for as a discontinued operation, therefore, its results of operations and cash flow have been removed from the Company's continuing operations for all periods presented.

#### RESULTS OF OPERATIONS

The Company's overall operating results and financial condition during the three and nine months ended July 31, 2003 compared to the three and nine months ended July 31, 2002 continue to be adversely affected by the overall economic situation in the United States through lower than anticipated product demand in the trailer and related transportation equipment manufacturing segment and by the limited availability of raw materials in the butyl reclaiming segment.

The following table shows net sales by product segment:

	Three Months Ended		Nine Months Ended
	July 31, 2003	July 31, 2002	July 31, 2003
Trailer manufacturing	\$ 11,534	\$ 10,475	\$ 29,746
Butyl rubber reclaiming	2,699	2,805	7,974
Coach leasing	2,562	1,959	5,082

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Net Sales	\$ 16,795	\$ 15,239	\$ 42,802
-----------	-----------	-----------	-----------

The following is a discussion of the major elements impacting the Company's operating results by segment for the three-month and nine-month periods ended July 31, 2003 compared to the three-month and nine-month periods ended July 31, 2002. The comments that follow should be read in conjunction with the Company's condensed consolidated financial statements and related notes contained in this Form 10-Q.

TRAILER AND RELATED TRANSPORTATION EQUIPMENT MANUFACTURING

The following table shows sales, cost of sales and gross profit for this segment for the periods indicated:

	Three Months Ended		Nine Months Ended
	July 31, 2003	July 31, 2002	July 31, 2003
Net Sales	\$ 11,534	\$ 10,475	\$ 29,746
Cost of Sales	10,378	8,952	27,132
Gross Profit	\$ 1,156	\$ 1,523	\$ 2,614
Gross Profit %	10.0%	14.5%	8.8%

Three Months Ended July 31, 2003 Compared to The Three Months Ended July 31, 2002

Net sales in this segment for the three months ended July 31, 2003 as compared to the comparable three month period ended July 31, 2002 increased 10.1% in the amount of \$1,059. Sales in this segment were higher than the prior year due primarily to the sales of cargo trailers. Production and sales of the cargo trailers increased due to the additional cargo manufacturing facility and the implementation of a discount/rebate program that was implemented in February 2003 for the cargo trailers to stimulate sales. Additional sales of cargo trailers were also made to existing customers that historically purchased truck bodies. The trailer market remains very price competitive and all major competitors are offering similar discount programs. The sales of truck bodies for the three months ended July 31, 2003 decreased \$36 compared to July 31, 2002. The decrease in sales was due primarily to the loss of this segment's primary truck body customer due to the customer's bankruptcy. We believe sales of truck bodies will continue at a level below 2002 as the Company does not anticipate any orders from this segment's primary truck body customer in the future.

- o The gross profit percentage decreased 4.5% for the three months ended July 31, 2003. The reduction in gross profit is attributable to three primary factors. First, the sales discount/rebate program discussed above has reduced gross profit by approximately 3.3%. Second, during

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

the fourth quarter of 2002, the Company opened an additional cargo trailer manufacturing facility. This facility did not obtain a level of efficiency of existing facilities until the end of the third quarter. Efficiency improved during the third quarter and is expected to be in line with existing facilities through the end of fiscal 2003. Lastly, gross profit has been negatively impacted by a reduction in sales of truck bodies, which has reduced the ability to absorb overhead at the truck body manufacturing facility. During late 2002, the Company began manufacturing cargo trailers in this facility to provide additional capacity and serve new markets. Production levels are increasing but have not yet reached a level of efficiency of existing cargo trailer facilities. Management is currently analyzing the use of the truck body facility and considering options of continuing production of truck bodies and cargo trailers, discontinuing one of these lines at this facility or closing the facility. A decision is expected prior to October 31, 2003. In conjunction with the analysis of operations at the truck body manufacturing facility, management is also analyzing any potential asset impairment at this facility. Total assets of Danzer at July 31, 2003 were \$3,395, which consists of \$1,396 of current assets and \$1,999 of net property and equipment, and represents approximately 7% of consolidated total assets.

### Nine Months Ended July 31, 2003 Compared to The Nine Months Ended July 31, 2002

Sales in this segment decreased \$464 or 1.5% over the comparable period of 2002. The decrease was primarily related to the following factors. First the sales of cargo trailers have increased approximately \$900 over the nine months ended July 31, 2002 as a result of additional production facilities and sales to existing customers in new markets. The Company also began a sales discount/rebate program to stimulate sales. While this program did increase the units sold, it resulted in a lower average price per unit. This increase was offset by the decrease in sales of truck bodies by approximately \$1,400 over the nine months ended July 31, 2003. This reduction was related to the continued depressed condition of the telecommunications industry which has historically been a significant consumer of truck bodies, as well as the bankruptcy filing of a significant truck body customer in late 2002. We believe sales of truck bodies will continue at a level below 2002, as we do not anticipate any orders from this segment's primary truck body customer in the future, and a replacement market has not yet been developed.

The gross profit decreased 4.7% primarily as a result of decreased volume at the Company's truck body plant which resulted in an inability to absorb fixed overhead costs. To offset these costs, management began production of cargo trailers in this facility during late 2002. Inefficiencies in the start up of this operation and additional production facilities have also had a negative impact in gross profit margins as compared to the nine months ended July 31, 2002. Management believes gross profits will continue to be adversely impacted by the lack of sales volume in truck bodies. The sales discounts/rebates offered during 2003 have ended as of July 31, 2003 with the introduction of new product lines to compete in the market at higher gross margins than the discounted cargo trailers.

### BUTYL RUBBER RECLAIMING

The following table shows sales, cost of sales and gross profit for this segment for the periods indicated:

Three Months Ended

Nine Months

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

	July 31, 2003	July 31, 2002	July 31, 2003
Net Sales	\$ 2,699	\$ 2,805	\$ 7,974
Cost of Sales	2,487	2,451	7,434
Gross Profit	\$ 212	\$ 354	\$ 540
Gross Profit %	7.9%	12.6%	6.8%

Three Months Ended July 31, 2003 Compared to The Three Months Ended July 31, 2002

Net sales for the three months ended July 31, 2003 compared to same period for 2002 decreased \$106 or 3.7%. The decrease relates to the demand from the Company's tire manufacturing customers for the three months ended July 31, 2003. The decreased demand was partially offset by a price increase of 2.2% over the comparable period for 2002. While sales have been steady with the additional price increase, management does not anticipate the return to historical levels due to the availability of raw materials discussed below.

The gross profit percentage decreased 4.7% for the three months ended July 31, 2003. This decrease was due to the decrease in volume, increase in the cost to obtain raw material and ongoing equipment maintenance. The Company has consolidated part of its equipment from two plants into one to maximize the production facilities. A portion of the equipment not consolidated with a carrying value of approximately \$650 is used at various times for additional capacity and toll grinding but at times may be temporarily idle. The equipment is being evaluated on an ongoing basis for its use in a production process for "fine ground" rubber. Existing and new equipment will be required to complete the "fine grind" production line. If it is determined the idle equipment does not have any foreseeable use, the equipment will be reclassified as idle equipment on the balance sheet, not depreciated and tested for impairment.

Reserves have been established primarily for inventory not usable without additional processing costs and currently usable only when mixed in the production process at a low rate with quality raw material. Reserves are reversed when such inventory is used in production. For the three months ended July 31, 2003, the Company utilized \$19 of its reserve.

Nine Months Ended July 31, 2003 Compared to The Nine Months Ended July 31, 2002

Net sales in this segment for the nine months ended July 31, 2003 as compared to the nine-month period ended July 31, 2002 increased 5.2% in the amount of \$395. Sales in this segment were higher than the nine months ended July 31, 2002 because of increased demand from Company's tire manufacturing customers and an increase in pricing. While the Company experienced an increase in sales throughout calendar year 2002, management does not anticipate a return to historic levels of sales of reclaimed butyl rubber to tire manufacturers during fiscal 2003, in part due to the lack of consistent sources of raw materials. Net sales also increased over the third quarter of 2002 due to increased demand for pipeline mastic wraps produced with reclaimed butyl rubber. Demand for this product fell dramatically beginning in October 2001 as a result of a decline in the price of crude oil in late 2001, which caused a decline in new oil exploration. As the price of crude oil increased, the demand for those uses has

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

also increased. Although this demand has increased from its lows at the end of fiscal 2001 and beginning of fiscal 2002, demand has not returned to historical levels.

Gross profit percentage decreased 2.8% for the nine months ended July 31, 2003 compared to the nine months ended July 31, 2002. The primary reason for this decrease is a lack of a consistent supply of raw materials and increasing energy costs. The Company's reclaim process is most efficient when raw material consists of primarily road worn inner tubes with a mix of other butyl rubber. Since the introduction of the tubeless tire for automobiles in the 1970s, sources of material have declined substantially and the cost of available raw materials has increased. As a result of having to use less than optimum raw material mix in the reclaiming process, additional processing time is incurred to ensure delivery of quality product. Management has been testing other materials including butyl pad scrap as a replacement material for the past several years with some success. In addition, alternative sources of material, including overseas sources, are being pursued to provide a consistent supply of material in the future. Until such time that consistent sources of raw materials are available, sales growth and gross profit in this segment will be limited.

### COACH LEASING

The following table shows sales, cost of sales and gross profit for this segment for the periods indicated:

	Three Months Ended		Nine Mont
	July 31, 2003	July 31, 2002	July 31, 2003
Net Sales	\$ 2,562	\$ 1,959	\$ 5,082
Cost of Sales	1,525	997	2,879
Gross Profit	\$ 1,037	\$ 962	\$ 2,203
Gross Profit %	40.5%	49.1%	43.3%

Three Months Ended July 31, 2003 Compared To The Three Months Ended July 31, 2002

Sales for the three months ended July 31, 2003 increased \$603 or 30.7% from the period July 31, 2002. The increase in sales relates to a higher utilization of the fleet for three months ended July 31, 2003 compared to the same period for 2002. The Company has increased its fleet size by adding four new buses during the current fiscal year to a total of 37 coaches as of July 31, 2003 compared to 30 coaches for the same period for 2002. The increase in number of coaches to the fleet is expected to increase revenues during the remainder of 2003.

Gross profit percentage decreased 8.6% for the three months ended July 31, 2003 compared to the period July 31, 2002. The reduction is attributable primarily to the cost of maintaining a larger fleet and the need to sublease additional buses from third parties for the three months ended July 31, 2003 to meet current

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

demand. The Company has also had increased operating costs for insurance.

Nine Months Ended July 31, 2003 Compared To The Nine Months Ended July 31, 2002

Sales for the nine months ended July 31, 2003 increased 12.6% in the amount of \$569 over the comparable nine-month period ended July 31, 2002. The increase in sales is attributable to increased utilization of the coach fleet. Management believes the increased utilization resulted from its marketing efforts and specialized tour groups (i.e. golf course trips) and corporate customers. These customers are in addition to the traditional country and western performers who have traditionally been this segment's primary customer base.

Gross profit percentage for this segment was 43.3% for the nine months ended July 31, 2003 compared to 48.2% for the comparable nine-month period ended July 31, 2002. As noted above the reduction is attributable primarily to the need to sublease additional buses from third parties to meet current demand and increased operating costs for insurance.

Selling, General And Administrative (SG&A) Expenses

The Company's selling, general and administrative expenses increased \$121 or 6.5% for the three months ended July 31, 2003 compared to the three-month period ended July 31, 2002 and \$111 or 1.8% for the nine months ended July 31, 2003 compared to the nine-month period ended July 31, 2002. The increases are related primarily to the overall increase in the use of outside professionals for services in assisting with amended filings for restatements.

Interest Expense

Interest expense as a percentage of average borrowings is as follows:

	Three Months Ended		Nine Mont
	July 31, 2003	July 31, 2002	July 31, 2003
Average debt borrowings	\$ 40,101	\$ 35,893	\$ 37,844
Interest expense as a percentage of average debt borrowings	2.2%	2.4 %	6.8%
Interest expense as a percentage of average debt borrowings, annualized	8.8%	9.6%	9.5%

The decrease is primarily due to the reduction of the prime rate and refinancing of a significant portion of the coach debt at lower rates during the fourth quarter of fiscal 2002.

Income Tax Provision

The income tax benefit for the three-month period ended July 31, 2003 increased by \$212 compared to the three-month period ended July 31, 2002 and increased \$616 for the nine-month period ended July 31, 2003 as compared to the nine-month period ended July 31, 2002. The income tax benefit is created primarily through

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

net operating loss carryforwards recognized to the extent they are available to offset the Company's net deferred tax liability. Any quarterly tax benefits are based on the estimated effective tax rate for the full year.

### Discontinued Operations

On October 30, 2002, the Company's Board of Directors agreed to sell substantially all assets of Champion to an entity controlled by Messrs. Durham and Whitesell in exchange for assumption of all liabilities of Champion, other than its subordinated debt. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for Impairment of Long-Lived Assets, the operating results of Champion have been classified as discontinued operations. The losses from discontinued operations for the nine months ended July 31, 2003 and 2002 represent the losses of Champion during these periods, net of tax benefit of \$25 and \$0, respectively. The loss from discontinued operations for the three and nine months ended July 31, 2003 and were \$0 and \$49, respectively, as compared to the three and nine months ended July 31, 2002 and totaled \$364 and \$1,085, respectively.

Substantially all assets of Champion subject to its liabilities were sold on January 30, 2003. No gain or loss was recognized in the consolidated statement of operations due to the involvement of related parties. This transaction resulted in an increase in equity of \$1,142.

### Liquidity And Capital Resources

Each of the subsidiaries of the Company have separate revolving credit agreements and term loan borrowings through which the subsidiary finances its operations together with cash generated from operations. The principal balances of some of these loans reflect the fact that Obsidian Capital Partners ("Partners"), from whom three of the four subsidiaries were purchased, entered into highly leveraged acquisitions of U.S. Rubber, Pyramid, and United.

This high level of debt has created liquidity issues for the Company and the stringent financial covenants that are common for this type of debt increase the probability that the Company's subsidiaries may from time to time be in technical violation of their credit agreements. These risks are mitigated, in part, for the Company's United and U.S. Rubber subsidiaries by the right described below under "Guarantees of Partners." Liquidity and capital resources have also been negatively impacted by consolidated losses.

The high level of debt also subjects the Company to additional liquidity risk should interest rates increase by a material amount. Approximately 46% of the Company's outstanding debt is variable and based on market factors such as the prime rate or LIBOR rates. A significant increase in these market indexes could have a material adverse affect on the Company's liquidity.

The Company's working capital position (current assets over current liabilities) was positive at July 31, 2003 by \$1,192. The working capital position was \$1,591 at October 31, 2002. This decrease is attributable to the lack of positive results primarily from the Trailer manufacturing segment and certain line of credit renewal dates which resulted in reclassification of \$4,288 to current liability as of July 31, 2003. This is partially offset by the assumption of Danzer Industries bank debt by Fair Holdings and the extension of the term resulting in a reclassification of \$1,488 of debt from current to long term.

The Company continues to address liquidity and working capital issues. Management believes that the steps started in 2002 and currently underway will continue to improve the Company's working capital, strengthen its equity and place the Company in a position to successfully enhance its liquidity. These steps include:

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

- o During 2002, the Board of Directors authorized the Chairman of the Board to explore various options regarding the operations at Champion. Options included divestiture, restructuring of operations or closing the facility. It was determined in the best interests of the Company to sell Champion. On January 30, 2003, the Company completed the sale of substantially all assets of Champion to an entity owned by Messrs. Durham and Whitesell, Chairman and President of the Company, respectively. The sale resulted in an increase in equity of \$1,142 as further described in Note 3.
- o During December 2002, the Company sold certain coaches of Obsidian Leasing to DC Investments Leasing for assumption of the existing debt. DC Investments Leasing then refinanced this debt at terms more favorable than the previous terms.
- o On April 1, 2003, the Company obtained an increase in its available line of credit with Fair Holdings to \$8,000.
- o On January 3, 2003, Obsidian Leasing refinanced debt due to former shareholders in the amount of \$928 with Fair Holdings at terms further described in Note 4.
- o During January 2003, United and U.S. Rubber obtained modifications to provide less stringent requirements on certain financial covenants with their respective lenders.
- o On March 28, 2003, Fair Holdings acquired the line of credit and term debt due to the senior lender of Danzer in the amount of \$1,488 under an assignment and assumption agreement. The maturity date of the line of credit included in the assignment and assumption agreement was extended to April 2006, and the debt covenants required by the senior lender were waived through the end of the term. All other terms of the assumed notes remain the same.
- o During March 2003, United completed a compensation review and update and provided a revised pay scale which realigns the Company with its industry and reduces compensation costs. United also continues to develop its new production facility to increase productivity and plant efficiency.
- o During 2003, U.S. Rubber has continued to consolidate its butyl reclaiming operations from two plants to one to maximize production and efficiently utilize equipment. The consolidation has provided some pieces of equipment to be at times temporarily idle until the Company completes its implementation of a new production process for "fine ground rubber". Existing and new equipment will be required to complete the "fine grind" production line. The new process will maximize the use of the existing raw materials in the Company's existing Butyl reclaim production and also provide additional products of natural rubber.
- o The Company's truck body division at Danzer continues to negatively impact the Company's cash flows. The trailer production line was put in place in the fourth quarter of 2002 to support the production needs at United and also provide a new product line to the existing customers of Danzer and open a potential new market along the East coast of the U.S. Given the current state of the Telecommunications industry and economic conditions management will continue to evaluate the operations and progress with the implementation of the trailer production. Management also expects to make a decision to continue or

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

discontinue operations by the end of fiscal 2003.

- o As a result of the actions described above, management believes that the Company has financing agreements in place to provide adequate liquidity and working capital for the remainder of fiscal 2003. However, there can be no assurance that refinancing will be obtained or that such working capital and liquidity will, in fact, be adequate. Future liquidity is also dependent upon the ability of the company to generate profitable operations and positive cash flow from its operating entities and maintain compliance with its credit agreements.

### Financial Covenant Waivers

At July 31, 2003, United Expresslines and US Rubber were in violation of certain financial covenants with Huntington Capital Investment Company and PNC Bank, respectively. United and US Rubber have received waivers of these violations.

### Funds Availability

On a consolidated basis, as of July 31, 2003, the Company had approximately \$329 of cash and cash equivalents. Danzer Industries, U.S. Rubber, United and Obsidian Enterprises each have revolving credit lines available for working capital at each individual entity. Borrowings under the credit facilities are available to the lesser of the maximum amount or the borrowing base as defined in the credit agreement. At July 31, 2003, additional current availability under these credit lines and maximum additional availability if supported by their individual borrowing base are:

Company	Current Availability	Maximum Availability
Danzer Industries	\$ 0	\$ 0
U.S. Rubber	62	2,240
United	0	0
Obsidian Enterprises	2,480	2,480

The Company generated negative net cash flow of \$2,953 from operations during the nine months ended July 31, 2003. Cash used in operations during this period is primarily due to increases in inventories and accounts receivable and decreases in accounts payable. The Company increased inventories during the first and second quarters primarily in the Trailer Manufacturing segment to improve the Company's ability to deliver orders during the balance of the year when demand was expected to increase. Inventory has continued to be above historic levels primarily due to lower than expected demand of Cargo Trailers. Accounts receivable increased in both the Trailer Manufacturing and Coach Leasing segments primarily due to increasing sales in the summer months in both segments. Funding during this period was provided through borrowings on lines of credit and from related parties.

### Refinancing Activities

Refinancing activity during the nine months ended July 31, 2003 included the following:

- o On December 17, 2002, Obsidian Leasing sold four coaches to DC Investments Leasing in exchange for DC Investments Leasing's satisfaction of the debt outstanding on such coaches. DC Investments Leasing paid this debt through a refinancing at terms that included a reduction in interest rates. In addition, DC Investments Leasing also acquired five additional coaches that were previously to be purchased by the Company thereby eliminating the Company's existing purchase

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

commitment for such coaches. DC Investments Leasing also entered into a management agreement with Pyramid under which all nine coaches described above will be leased by Pyramid.

- o On January 5, 2003, Obsidian Leasing refinanced debt in the amount of \$928 to former shareholders of Pyramid and related companies. Terms of the new note with Fair Holdings include monthly interest payments of 13% of the outstanding principal amount and a balloon principal payment in January 2006.
- o On March 28, 2003, Danzer's line of credit and term loan were assumed by Fair Holdings. The maturity date on the line of credit was extended to April 1, 2006 and all covenants were waived.

### Guarantees Of Partners

The Company has an agreement with Partners that gives it the right to mandate a capital contribution from Partners if the lenders to U.S. Rubber or United were to declare a default. In either of those events, the Company has the right to enforce a capital contribution agreement with Partners up to \$1,620,000 on U.S. Rubber and \$1,000,000 on United to fund the respective subsidiary's shortfall. These payments, if any, would be applied directly to reduce the respective subsidiary's debt obligations to the lender.

### Cash Flows

A summary of our contractual cash obligations for the fiscal years ending 2003 through 2006 and 2007 and thereafter at July 31, 2003 is as follows:

Contractual Obligations	Total	2003	2004	2005	2006
Long-term debt, and all debt service interest payments	\$ 54,931	\$ 4,284	\$ 8,931	\$ 20,640	\$ 20,076
Operating leases	1,397	450	353	274	274
Mandatory redeemable preferred stock	1,462	--	337	--	--
<b>Total contractual cash obligations</b>	<b>\$ 57,790</b>	<b>\$ 4,734</b>	<b>\$ 9,621</b>	<b>\$ 20,914</b>	<b>\$ 20,350</b>

Cash flow and liquidity are discussed further below, and the footnotes to our financial statements discuss cash flow, liquidity and the current classification of debt.

We also have a commercial commitment as described below:

Other Commercial Commitment	Total Amount Committed	Outstanding at July 31, 2003	Date of Maturity
-----	-----	-----	-----

Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Line of credit, related party	\$	1,000	\$	1,000	April
Line of credit		3,750		3,750	Februa
Line of credit		4,000		2,068	Octobe
Line of credit		650		650	June 3
Line of credit, related party		8,000		5,519	Januar

\*Currently in negotiations with lender.

The Company's net cash used in operations for the nine months ended July 31, 2003 was \$2,953. This is comprised of a loss from continuing operations of \$2,730, offset by noncash changes as follows: depreciation and amortization of \$2,232, deferred tax benefit of \$820, accretion of interest expense of \$286, and the extension of stock options of \$30. In addition, the Company had increases in accounts receivable of \$1,289, inventories of \$376, accrued expenses and customer deposits of \$915, and other assets of \$146 and a decrease in accounts payable of \$1,055.

Net cash flow provided from financing activities for the nine months ended July 31, 2003 was \$2,940. This is comprised of borrowings of long-term debt and net borrowings of short-term debt of \$1,984 and borrowings from related parties of \$4,982, offset by principal repayments of long-term debt of \$2,612. In addition, the Company repaid \$1,414 of related-party payables.

Cash flow used in investing activities for the nine months ended July 31, 2003 was \$537 This is comprised of purchases of equipment of \$560 and other of \$23.

The total decrease in cash is summarized as follows:

	Nine Months Ended	
	July 31, 2003	July 31, 2002
Net cash used in operations	\$ (2,953)	\$ (110)
Net cash used in investing activities	(537)	(559)
Net cash provided by financing activities	2,940	593
Net cash provided by (used in) discontinued operations	(41)	6
Decrease in cash and cash equivalents	\$ (591)	\$ (70)

Critical Accounting Policies

Our significant accounting policies are summarized in Note 2 to the consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended October 31, 2002 and describe the significant accounting policies and methods used in the preparation of the consolidated financial statements. Some of the most critical policies are also discussed below.

As a matter of policy, we review our major assets for impairment. Our major operating assets are accounts receivable, inventory, intangible assets and property and equipment. We have not historically experienced significant bad

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

debts expense, although the filing of Chapter 11 bankruptcy during 2002 of a customer resulted in a bad debt charge of \$379. However, we believe our reserve for doubtful accounts of \$492 should be adequate for any exposure to loss in our July 31, 2003 accounts receivable. We have also established reserves for slow-moving and obsolete inventories and believe the reserve of \$359 is adequate. We depreciate our property and equipment and amortize intangible assets (except for goodwill) over their estimated useful lives. Property and equipment are reviewed for impairment when events and circumstances indicate impairment factors may be present. Currently, operating results at our truck body manufacturing facility, including the bankruptcy of a significant truck body customer, indicate the assets of this facility may be subject to impairment. Accordingly, we are analyzing these assets for impairment in conjunction with our analysis of the continuing operations of this facility. In addition, consolidation of facilities at our butyl rubber reclaiming operation has resulted in some equipment at that facility being temporarily idle as we implement a new production line for "fine grind" rubber. Should this new process not utilize all of the idle equipment, we will analyze such equipment for impairment.

Goodwill and intangibles are reviewed annually for impairment or more frequently when events and circumstances indicate potential impairment factors are present. The Company has established the first day of the fourth quarter as the date for its annual goodwill impairment test. In assessing the recoverability of the Company's goodwill, the Company must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets in future periods. Any such resulting impairment charges could be material to the Company's results of operations.

The initial cost of coaches acquired is depreciated over a straight-line basis to a salvage value of 38% of original cost. Subsequent enhancements and refurbishments of coaches are depreciated over five years using the straight-line method. The age of coaches in our fleet range from less than one year to nine years, with an average age of approximately four years. Actual value of coaches after 15 years is dependent on several factors including the level of maintenance and the market conditions at the time of disposal. We have not disposed of a material number of coaches, and our estimate of depreciation is based on information other than actual disposal experience. Accordingly, we continue to evaluate our estimates with respect to the actual depreciation of such vehicles based on market conditions and our experience in disposals when they occur. Should future factors indicate the current depreciation policy is not adequate, we will adjust the depreciation rates, and such adjustments may have an adverse impact on our results of operations.

In conjunction with financing of the acquisition of United, the Company issued 386,206 shares of Series C preferred stock to Huntington Capital Investment Corporation ("Huntington"). The note purchase agreement includes a provision that gives Huntington the option to require the Company to repurchase these shares at 90% of market value upon the earlier of: a) fifth anniversary of issuance of such shares, b) default under the subordinated debt agreement, c) other factors related to a sale of substantially all assets of the Company as defined in the agreement. Increases in the value of the Company's stock will result in a corresponding increase to this repurchase requirement. Accordingly, a substantial increase in stock price at the repurchase date may have an adverse impact on the Company's liquidity. At July 31, 2003, the Company had violated certain financial covenants defined in the subordinated debt agreement with Huntington. The Company received a waiver of these violations as of July 31, 2003.

Item 3 Quantitative And Qualitative Disclosures About Market Risk

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

The Company is exposed to market risk related to interest rate changes. See the discussion of market risk in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2, which discussion is incorporated by reference herein.

### Item 4 Controls And Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management recognizes that, because the design of any system of controls is based in part upon certain assumptions about the likelihood of future events and also is subject to other inherent limitations, any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired objectives. The Company's management believes, however, that the Company's disclosure controls and procedures provide reasonable assurance that the disclosure controls and procedures are effective.

The Company has carried out as of July 31, 2003, an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial 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 internal controls subsequent to the July 31, 2003 evaluation.

## Part II--Other Information

### Item 1. Legal Proceedings

The Company is party to ordinary litigation incidental to its business. No current pending litigation is expected to have a material adverse effect on results of operations, financial condition or cash flows.

### Item 2. Changes In Securities And Use Of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Submission Of Matters To A Vote Of Security Holders

None.

### Item 5. Other Information

None.

### Item 6. Exhibits And Reports On Form 8-K

#### Exhibits

The exhibits filed as part of this Form 10-Q are listed in the Exhibit Index, which is incorporated herein by reference.

## Edgar Filing: OBSIDIAN ENTERPRISES INC - Form 10-Q

Reports on Form 8-K  
None.

### Signatures

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

OBSIDIAN ENTERPRISES, INC.

September 15, 2003

By: /s/ Timothy S. Durham

-----  
Date

-----  
Timothy S. Durham, Chairman and Chief  
Executive Officer

September 15, 2003

By: /s/ Rick D. Snow

-----  
Date

-----  
Rick D. Snow, Executive Vice President/  
Chief Financial Officer

### Exhibit Index

Exhibit No.	Description	
10.1	Employment Agreement, dated April 30, 2003, between Obsidian Enterprises, Inc. and Rick D. Snow.*	Attached
31.1	Certification of Timothy S. Durham.	Attached
31.2	Certification of Rick D. Snow.	Attached
32.1	Statement Regarding Certification Pursuant to 18 U.S.C.ss.	Attached
32.2	1350 by Timothy S. Durham, Chief Executive Officer. Statement Regarding Certification Pursuant to 18 U.S.C.ss.	Attached
	1350 by Rick D. Snow, Chief Financial Officer.	

\* Indicates exhibits that describe or evidence management contracts or compensatory plans or arrangements required to be filed as exhibits.