OBSIDIAN ENTERPRISES INC
Form 10-K/A
March 17, 2006

Securities And Exchange Commission

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

(Mark One)

ý	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
	FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
	FOR THE TRANSITION PERIOD FROM TO

0-17430

Commission File Number

OBSIDIAN ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**35-2154335** (IRS Employer Identification No.)
111 Monument Circle, Suite 4800 **Indianapolis, IN** (Address of principal executive offices)	**46204** (Zip Code)

(317) 237-4122

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock ($0.0001 par value)

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of the Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerate filer. Definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer o Accelerated filer o Non-accelerated filer ý

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO ý

As of April 30, 2005, the aggregate market value of the Company s common stock held by non-affiliates of the registrant, based on the average bid and ask price on such date, was approximately $829,550.

As of January 30, 2006, the registrant had 3,109,333 shares of common stock outstanding.

Explanatory Note

Obsidian Enterprises, Inc. (the Company) hereby amends its annual report on Form 10-K, for the fiscal year ended October 31, 2005 (the Original Form 10-K) as set forth in this Amendment No. 1 to Form 10-K (the Form 10-K/A). The Company is filing this Form 10-K/A to eliminate prior period adjustments contained in the financial statements, to include an audit opinion for the fiscal years ended October 31, 2004 and 2003, to revise the control provisions disclosed in Item 9A, and to correct certain typographical errors within the Original Form 10-K. Except for the items noted above, no other information is being amended by this Form 10-K/A. The Company has not updated disclosures in this Form 10-K/A to reflect any event subsequent to the Company s filing of the original Form 10-K.

DOCUMENTS INCORPORATED BY REFERENCE

Information required in Part II and Part III has not been incorporated by reference.

Part I

Item 1. **Business.**

Description of Business

Overview

Obsidian Enterprises, Inc. (Obsidian Enterprises) is a holding company headquartered in Indianapolis, Indiana. We have historically invested in and acquired small and mid-sized companies in industries such as manufacturing and transportation.

Our goals are to maximize the profits of our current subsidiaries and to acquire additional manufacturing companies of similar size. We currently conduct business through six subsidiaries:

Butyl-Rubber Reclaiming

U.S. Rubber Reclaiming, Inc. (U.S. Rubber), acquired in fiscal 2001, owns and operates butyl-rubber reclaiming facilities;

Coach Leasing

Pyramid Coach, Inc. (Pyramid), acquired in fiscal 2001, provides luxury coach leases for corporations and the entertainment industry;

Obsidian Leasing Company, Inc. (Obsidian Leasing), formed in fiscal 2002, owns some of the coaches operated by Pyramid;

Trailer and Related Transportation Equipment Manufacturing

United Expressline, Inc., (United), acquired in fiscal 2001, manufactures steel-framed cargo, racing and specialty trailers;

Danzer Industries, Inc. (Danzer), the only subsidiary of the Company until fiscal 2001, manufactures metal parts and truck bodies for the service and utilities markets; and

Classic Manufacturing, Inc. (Classic), acquired in May 2004, manufactures steel-framed cargo, fifth wheel, gooseneck, motorcycle, race, snowmobile and stacker/lift trailers and open trailers used in the landscape industry.

Prior to fiscal 2001, our only subsidiary was Danzer. In fiscal 2001, we changed our management and expanded our business. Timothy S. Durham became our Chief Executive Officer and Chairman of the Board and we purchased four new businesses from Mr. Durham, Obsidian Capital Partners, L.P (Partners) and the other owners of such businesses pursuant to an Acquisition Agreement and Plan of Reorganization, dated June 21, 2001. Pursuant to the Acquisition Agreement and Plan of Reorganization, shares of our Series C Preferred Stock were issued to the sellers in exchange for our acquisition of the businesses. We currently own and operate three of the businesses acquired in this transaction, U.S. Rubber, Pyramid, and United. The fourth business acquired, Champion Trailer, Inc. (Champion), which manufactured racecar transporters, specialty exhibits trailers and mobile hospitality units, was sold in 2003.

In October 2001, we changed our state of incorporation from New York to Delaware and our name was changed from Danzer Corporation to Obsidian Enterprises, Inc.

In March 2004, Obsidian Capital Partners converted all of its shares of our Series C Preferred Stock and our Series D Preferred Stock into a total of 2,218,725 shares of our common stock. Following this conversion, no shares of our Series C or Series D Preferred Stock are currently outstanding. Also in fiscal 2004, the shareholders approved a 50-to-1 reverse stock split. As a result of the reverse stock split and the amendment to the Certificate of Incorporation we reduced the number of shares of common stock outstanding and the number of authorized shares were also reduced.

Segments

We operate in three industry segments:

- butyl rubber reclaiming;
- trailer and related transportation equipment manufacturing; and
- coach leasing.

All sales are in North and South America, primarily in the United States, Canada and Brazil. For quantitative and geographic segment information, see Note 13 in the Notes to Consolidated Financial Statements.

Butyl Rubber Reclaiming

Our butyl rubber processing facilities are located in two adjacent plants in Vicksburg, Mississippi. We collect various used and scrap butyl rubber products, primarily inner tubes from tires, and then reprocess these into reclaimed butyl rubber sheets. We sell reclaimed butyl rubber products through an internal sales force.

Customers mix our reclaimed butyl rubber with virgin butyl rubber and use the product predominately as the inner liner of tubeless tires and also as inner tubes for tires and for tapes and mastics for pipelines. The combination of reclaimed butyl rubber with virgin butyl rubber facilitates some manufacturing processes, but the primary reason manufacturers use reclaimed butyl rubber is the cost savings offered compared to virgin butyl rubber.

Three other enterprises engaged in reclaiming butyl rubber worldwide are:

- The Gujarat Company in India;
- Han Cook in Korea; and
- Vrederstein N.V. in the Netherlands.

These enterprises are not major competitors of ours for sales in the North and South America, because price is the primary competitive factor and cost of transportation increases the prices these other enterprises can offer. These enterprises do compete with us for the purchase of used and scrap butyl rubber products, our primary raw material.

Two enterprises manufacture virgin butyl rubber for sale in the United States:

Exxon Corporation; and

Bayer AG.

These enterprises are much larger than we are, are well capitalized and have larger sales staffs. The prices these enterprises charge for virgin butyl rubber place an upper limit on the prices that we can charge for reclaimed butyl rubber.

We obtain our supply of scrap inner tubes primarily from approximately 1,000 scrap merchants located principally in the United States. We also import a supply of scrap inner tubes from sources in Brazil, Venezuela, and India. Our ability to produce reclaimed butyl rubber is potentially restrained by the limited supply of scrap butyl rubber products. Since the introduction of tubeless tires for automobiles in the 1970s, the number of scrap inner tubes from sources in the United States has declined substantially. In the United States, inner tubes are now primarily limited to the agricultural and large truck tire market. We also obtain some additional supplies with reclaiming scrap butyl rubber pads from the manufacturers of other butyl rubber products. This pad scrap is created as a result of the manufacturing process for molded butyl rubber products and is available at approximately 60% of the cost of scrap inner tubes. The pad scrap is a partial substitute for inner tubes as raw material for our reclaimed butyl rubber product.

We recently introduced new processing equipment to improve our operating efficiencies and reduce our cost to produce our products. We also added additional equipment including a wet grind and cryogenic systems to increase our ability to utilize additional rubber products in our butyl rubber reclaim process and to add new natural rubber products to this segment.

We are the primary supplier of reclaimed butyl rubber to most of the tire industry in the United States and we also have tire manufacturer customers in Canada and Brazil. Although we have had long-term relationships with our primary customers, we do not have long-term contracts with them. Three of our reclaimed butyl rubber customers accounted for a substantial portion of our butyl rubber sales in fiscal 2005:

Michelin: 42.8 %

Kelley Springfield: 26.3%

Tyco Adhesives: 16.1%

The loss of any of the largest customers would materially and adversely affect our revenues. Our reclaimed butyl rubber products are generally ordered by customers monthly and shipped promptly after the order. Customers generally pay accounts on 30- to 60-day terms.

Trailer and Related Transportation Equipment Manufacturing

Manufacturing

We manufacture specialty racing, cargo and ATV trailers at facilities we own in Bristol, Indiana, Hagerstown, Maryland and Sturgis, Michigan. Prior to October 31, 2005 we also manufactured service truck bodies to order for original equipment truck manufacturers under the Morrison trademark at our facility in Hagerstown, Maryland.

Customers, Sales and Marketing

We sell our United Trailers, Danzer Trailers, and Classic Trailers product lines through a network of approximately 420 dealers in the United States and Canada, principally in the Midwestern and Eastern United States. The trailers are built to order to dealer specifications. Although we have formal agreements with a few of these dealers, most of the dealership arrangements are informal and nonexclusive. The terms of sale for the trailer products is when title transfers (FOB the plant) with payment generally due upon the dealer taking delivery of the trailer, although certain dealers have 30- or 60-day payment terms. Our trailer business is somewhat seasonal, with fewer orders during the months from November through January. Seasonality of our business relates primarily to increased purchases during the warmer months of the year. Although the prices for our trailer brands can be as high as $80,000, the average price is approximately $3,950.

Prior to October 31, 2005 our service truck bodies were sold primarily to customers located in the Eastern and Southeastern United States. We sold our service truck bodies to original equipment truck manufacturers, or private labels , shipping finished bodies to the customer for installation on truck body chassis. We also sold service truck bodies under our proprietary Morrison trademark to a network of approximately 300 dealers who, in turn, sell to municipalities, utility companies, cable companies, phone companies and contractors. Sales of service truck bodies tend to follow a seasonal pattern of increased purchases during the spring and fall and lower purchases during the months of late fall and winter due to the purchasing habits of the telecom industry. Although the prices for our service truck bodies can be as high as $10,000, the average price is approximately $3,000. As part of our cost cutting measures and improvement in operating efficiencies, the truck body line has been discontinued as of October 31, 2005.

Sales of both trailers and related transportation equipment manufacturing products are conducted through an internal sales force maintained by our subsidiaries.

Competitors

A significant number of companies manufacture specialty racing, cargo and ATV carriers in the United States. Although many of these companies are relatively small and do not possess our technical capability, a number of our competitors are much larger and possess equal or greater technical and financial resources. Four of our larger competitors are:

Haulmark Industries;

Pace American;

U.S. Cargo; and

Wells Cargo.

We compete for specialty racing, cargo and ATV trailer sales through price, quality and availability, but price generally is the most important factor.

Raw Materials

We purchase our raw materials for the trailer and related transportation equipment segment from numerous suppliers. During fiscal 2005 and 2004, we had an adequate supply of raw materials for our production needs, although the prices for these materials escalated substantially.

Warranties

We generally warrant our trailer and related transportation equipment to be free from defects in material and workmanship, and we also provide warranties relating to performance under normal use, including service for three to five years after retail sale. Our obligation under these warranties generally is limited to the repair or replacement of the defective product. Historically, our warranty costs have not been material to our consolidated financial statements.

Backlog

The backlog of our trailer and related transportation segment as of October 31, 2005 was approximately $5,853 as compared to backlog as of October 31, 2004 of $6,823 (stated in thousands). We expect to fill this backlog during fiscal 2006.

Coach Leasing

We lease high-end luxury entertainment coaches from our facility in Nashville, Tennessee. We lease coaches for both short-term (weekly or monthly) and long-term periods.

At October 31, 2005, we managed 36 coaches. We also at times sublease coaches from other coach owners on a short-term basis in order to lease them to our customers.

DW Leasing, LLC (DW Leasing), a company Mr. Durham controls, transferred 22 coaches to our subsidiary Obsidian Leasing in fiscal 2002. DW Leasing continues to own seven coaches that we manage. We also manage ten coaches owned by DC Investments Leasing, LLC (DC Investments Leasing), an entity controlled by Mr. Durham.

Our consolidated financial statements include the assets, liabilities and equity of DW Leasing and the results of its operations, and since its December 1, 2002 inception, the assets, liabilities and equity of DC Investments Leasing and the results of its operations. Both of these entities are in the business of coach leasing and their coaches are leased exclusively through Pyramid. For additional information, see the discussion of FASB Interpretation No. 46 included in Note 1 to the Notes to Consolidated Financial Statements contained in Item 8.

We lease coaches through an internal sales force to country, rock-n-roll, pop and traveling Broadway show entertainment industries across the United States. During the year ended October 31, 2005, we leased coaches to a number of touring groups, including Alan Jackson, Kathy Mattea, Julie Roberts, Deana Carter, Jo Dee Messina, Tanya Tucker, Kenny Rogers, Steve Earle, Josh Turner, Ruben Studdard, Loretta Lynn, 38 Special, Caedmon s Call, Steve Winwood, G Love & Special Sauce, Jamie O Neal, Brad Cotter, Los Lobos, Big Bad Vodoo Daddy, Nickel Creek, and the Producers. We also lease coaches to various corporate customers.

Several other companies lease luxury coaches in the United States. A significant number of companies are small in comparison to the number of coaches in our fleet. Although many of these companies are relatively small and do not possess our amenity qualities, a number of our competitors are much larger and possess equal or greater amenity qualities and financial resources. Some of our larger competitors include:

- Entertainer Coaches of America;
- Florida Coach;
- Senators Coach; and
- Hemphill Brothers.

We believe that amenities are an important factor in leasing coaches to our target market and we equip our coaches with a full complement of amenities. We compete with other luxury coach providers based on a combination of quality, amenities, availability and price. During fiscal 2005 and 2004 we experienced turnover in management, and the entertainment touring experienced a significant increase in competition which had a negative impact on our operations.

Government Regulation

Federal, state, and local agencies regulate areas of our business, including environmental and fire hazard control. They also regulate our work place to ensure safe working conditions for our employees. The trailers and truck bodies we manufacture must meet standards set by state and federal transportation authorities and the coaches we lease must comply with those standards and regulations. These regulatory bodies could take actions that would have a material adverse affect on our ability to do business.

Employees

As of October 31, 2005, we had 450 employees. We have a labor contract through January 2008 with the United Brotherhood of Carpenters and Joiners of America for the approximately 50 production workers at our facility in Hagerstown, Maryland. None of the employees at our other facilities is represented by a labor union. We believe that our employee relations are satisfactory.

Patents and Proprietary Technology

We do not rely on any patents, registered trademarks, or special licenses to give us a competitive advantage. The Danzer, Pyramid, United Trailer, and Classic Trailer brand names have brand recognition in the relevant market.

Research and Development

We have not incurred any material research and development expenses during any of our last three fiscal years and we do not contemplate incurring any material research and development expenses in fiscal 2006.

Financial Information for business segment data and geographic data

We operate our business through three segments. For further detail of revenue, profit or loss and total assets see Note 13 to the Notes to Consolidated Financial Statements contained in Item 8.

Working Capital

Our practices relating to working capital are described under the heading Item 7 Liquidity and Capital Resources .

Forward-Looking Information and Risks

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements. You can identify forward-looking statements by the use of words and phrases such as expects, plans, will, estimates, forecasts, projects, believes, anticipates, lookin other words and phrases of similar meaning. You also can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation. Readers should carefully review the risks described in this and other documents that we file from time to time with the Securities and Exchange Commission, including the quarterly reports on Form 10-Q and other reports filed by the Company. Readers are cautioned not to place undue reliance on the forward-looking statements, which speak only to the date of this Annual Report on Form 10-K. The Company undertakes no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Forward looking statements cannot be guaranteed and actual results may vary materially due to the uncertainties and risks, known and unknown, associated with such statements. The Company wishes to caution readers that the important factors set forth in Item 1A of this Form 10-K in some cases have affected, and in the future could affect, the Company s actual results an could cause actual consolidated results to differ materially from those expressed in any forward-looking statements made by, or on behalf of the Company.

Item 1A. **Risk Factors.**

1. A group of Obsidian Stockholders have filed a transaction statement on Schedule 13E-3. The purpose of the transaction is to eliminate the public stockholders of Obsidian and cause Obsidian to become a private company whose stock will no longer be traded on the OTC Bulletin Board and which will no longer be subject to the periodic reporting requirements of the Securities Exchange Act of 1934. Subsequent to fiscal 2005, the group filed amendment 4 to schedule 13-E3 notifying all shareholders that the group obtained 90% ownership and the expected date to complete the going private transaction is March 17, 2006.

2. There is a limited market for our Common Stock. There can be no assurance that a broader market for the Common Stock will develop. Selling shares of the Common Stock may be difficult because smaller quantities of shares are bought and sold and security analysts and news media coverage about the Company is limited. These factors could result in lower prices and larger spreads in the bid and asked prices for the shares of Common Stock.

3. Recently, there have been significant regulatory changes, including the Sarbanes-Oxley Act of 2002, and there may be new accounting pronouncements or regulatory rulings that will have an impact on our future consolidated financial position and results of operations. The Sarbanes-Oxley Act of 2002 and other rule changes and proposed legislative initiatives following several highly publicized corporate accounting and corporate governance failures are likely to increase general and administrative costs.

4. Our financial statements have been presented on the basis that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company s independent auditor has included a going concern emphasis paragraph in its audit report relating to the Company s audited financial statements for the fiscal year ended October 31, 2005, based on, among other things, concerns regarding, working capital deficits, loan covenant violations and recurring losses from operations. The Company s realization of its assets and satisfaction of its liabilities in the normal course of business is dependent upon the Company s ability to generate sufficient cash flow to meet its financial obligations, to comply with the terms of its debt financing agreements, to obtain refinancing of certain obligations and to continue to receive financial support under its line of credit agreements.

5. Our inability to obtain additional financing may prevent additional expansion in our current business or acquiring new businesses. Additional financing may not be available to us on

advantageous terms or at all, if, for example the interest rates are unattractive or we do not have sufficient collateral available to secure the desired increase in debt. Currently all of our assets are being used to secure outstanding debt, so unless we acquire unsecured assets or obtain a partial release from our secured creditors of their security interests, we will not have available additional collateral to pledge to new debtors.

6. We may issue equity to finance any future acquisitions or refinance existing debt. This would dilute the proportionate ownership of our current shareholders and may reduce per share value. Acquisitions may also lead to increased levels of borrowing. This would result in increased interest expense. Acquisitions are also likely to increase our depreciation and amortization expense. These factors may incur losses or reduced profits in the future.

7. The prices of the raw materials we utilize are subject to fluctuation, as occurred in fiscal 2005. We may not be able to pass along any or all of these increases to our customers. As a result, increases in the price of raw materials may decrease the profit margin from sales of our products.

8. Our overall strategy includes increasing revenue and reducing/controlling operating expenses. We have concentrated our efforts in ongoing, company-wide efficiency activities intended to increase productivity and reduce costs including personnel reductions, reduction or elimination of non-personnel expenses and realigning and streamlining operations. We cannot assure that our efforts will result in increased profitability for any meaningful period of time.

9. We face significant competition in connection with the products and services we provide. The level of competition has increased recently and is expected to continue at increasing levels in the future. There are many other companies engaged in the manufacture of cargo trailers, luxury coach leasing and butyl rubber reclaiming, and many of these companies have greater financial and other business resources than those possessed by us. Furthermore, other companies may enter the our area of business in the future. If competition increases, our sales and profits are likely to decline.

10. We may have difficulty receiving our requirements for butyl rubber tubes, our principle raw material in this segment. In recent years, the number of sources of supply has been reduced. We continue to search for additional sources and to make purchases from foreign suppliers. However, if the number of suppliers is further reduced, or if we are otherwise unable to obtain butyl raw material requirements on a timely basis and on favorable terms, our operations may be harmed.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. **Properties.**

The following describes the Company s properties:

Identification	Location	Ownership/Description	Segment
Headquarters	111 Monument Circle, Suite 4800, Indianapolis, IN 46204	3,700 square feet leased commercial office space	N/A
Butyl Rubber Processing Plants	Vicksburg, Mississippi	Two adjacent plants aggregating 87,000 square feet, each owned by the Company and encumbered by a mortgage to PNC Bank	Butyl Rubber Processing
Trailer Manufacturing Plant	Hagerstown, Maryland	75,000 square foot plant owned by the Company and encumbered by a mortgage to Fair Holdings	Trailer and related transportation equipment manufacturing
Trailer Manufacturing Plant	Bristol, Indiana	Several buildings aggregating 49,000 square feet owned by the Company and encumbered by a mortgage to LaSalle Bank.	Trailer and related transportation equipment manufacturing
Trailer Manufacturing Plant	White Pigeon, Michigan	47,000 square foot plant owned by the Company and encumbered by a mortgage to LaSalle Bank.	Trailer and related transportation equipment manufacturing
Coach Leasing Office	Nashville, Tennessee	12,000 square feet of office space and other facilities leased by the Company	Coach Leasing
Trailer Manufacturing Plant	Sturgis, Michigan	54,000 square foot plant leased by the Company**	Trailer and related transportation equipment manufacturing

** Long term lease from a related party expiring May 2012.

We believe that our property, plant and equipment are well maintained and adequate for our requirements. We also believe that all of our assets are adequately covered by insurance.

Item 3.