OBSIDIAN ENTERPRISES INC
Form 10-Q/A
September 22, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 2)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended July 31, 2004; or

[ ] 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** (I.R.S. Employer Identification No.)
111 MONUMENT CIRCLE, SUITE 4800 **INDIANAPOLIS, INDIANA** (Address of prinicpal executive offices)	**46204** (Zip Code)

(317) 237-4122
(Registrant s telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

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 [X] No [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock	Outstanding at
$.0001 par value	August 31, 2004
	3,109,333 shares

The Company is filing this Amendment No. 2 to Quarterly Report on Form 10-Q/A for the fiscal quarter ended July 31, 2004, solely to include conformed signatures which were inadvertently omitted from Amendment No. 1 to Quarterly Report on Form 10-Q/A for the fiscal quarter ended July 31, 2004, which was filed on September 20, 2004. This Amendment No. 2 is otherwise identical to Amendment No. 1.

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

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Explanatory Note

The Company is filing this Amendment No. 2 to Quarterly Report on Form 10-Q/A for the fiscal quarter ended July 31, 2004, solely to include conformed signatures which were inadvertently omitted from Amendment No. 1 to Quarterly Report on Form 10-Q/A for the fiscal quarter ended July 31, 2004, which was filed on September 20, 2004. This Amendment No. 2 is otherwise identical to Amendment No. 1. Although the Chief Executive Officer and Chief Financial Officer did manually execute the signature page to Amendment No. 1 and the certifications included in Exhibits 31.1, 31.2, 32.1 and 32.2 thereof, the conformed signatures were inadvertently omitted from the electronic version of the document filed on EDGAR.

Amendment No. 1 was filed on September 20, 2004, solely to correct one typographical on the cover page of the filing and to correct certain typographical errors contained in the Consolidated Financial Statements contained in Item 1 of Part I and in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Item II of Part I of the Form 10-Q filed with the Securities and Exchange Commission on September 15, 2004.

The cover page of the Form 10-Q filed on September 15, 2004 incorrectly included a check mark indicating that the Company is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act), when the Company is not an accelerated filer.

In addition, the line item showing the total balance at July 31, 2004 in the Condensed Consolidated Statements of Stockholders' Deficit and Comprehensive Loss contained two typographical errors. The Total Balance at July 31, 2004 was shown as $(7,477) and has should have been $(7,579). The Total Fair value adjustment on redeemable stock was shown as $1,196 and should have been $1,094. These errors were the result of a miscommunication in the edgarizing process.

In Note 8 to the Notes to Condensed Consolidated Financial Statements the Business Segment Data for the Three Months Ended July 31, 2003 the Corporate Income (loss) before taxes and minority interest was shown as $104 and should have been $(104).

Finally, in Management's Discussion and Analysis of Financial Condition and Results of Operations, a non-numeric typographical error was corrected in the section entitled Income Tax Provision.

Except for the corrected items noted above, no other information is being amended by this Form 10-Q/A. The Company has not updated disclosures in this Form 10-Q/A to reflect any event subsequent to the Company's filing of the original Form 10-Q.

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

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

	July 31, 2004	October 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 458	$ 1,148
Marketable securities	154	114
Accounts receivable, net of allowance for doubtful accounts of $473 for 2004 and $492 for 2003	4,614	3,665
Accounts receivable, related parties	140	52
Inventories, net	9,345	7,455
Prepaid expenses and other assets	1,162	1,081
Total current assets	15,873	13,515
Property, plant and equipment, net	24,175	24,480
Other assets:		
Other intangible assets, net of accumulated amortization of $1,257 for 2004 and $907 for 2003	9,165	7,878
Other	12	9

	July 31, 2004	October 31, 2003
Assets		
	$ 49,225	$ 45,882

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

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

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

	July 31, 2004	October 31, 2003
Liabilities and Stockholders Deficit		
Current liabilities:		
Current portion of long-term debt	$ 9,454	$ 2,379
Accounts payable, trade	5,569	2,742
Accounts payable, related parties	940	837
Accrued expenses and customer deposits	1,571	1,512
Total current liabilities	17,534	7,470
Accounts payable, related parties	556	---
Long-term debt, net of current portion	17,192	13,937
Long-term debt, related parties	18,677	24,765
Deferred income tax liabilities	680	651
Minority interest	206	172
Redeemable stock:		
Common stock, 324,933 shares outstanding for 2004	1,959	---
Class of Series C Preferred Stock: 386,206 shares outstanding for 2003	---	1,803
Class of Series D Preferred Stock: 32,143 shares outstanding for 2003	---	337
Stockholders deficit:		
Common stock, par value $.0001 per share; 10,000,000 shares authorized, outstanding 2,784,400 in 2004, 720,157 in 2003	1	1
Preferred stock, 5,000,000 shares authorized, no shares outstanding in 2004; Class of Series C convertible preferred stock, par value $.001, 4,600,000 authorized, 3,982,193 issued and outstanding for 2003, 200,000 shares of undesignated preferred stock authorized	---	5
Preferred stock, 200,000 shares authorized, no shares outstanding in 2004; Class of Series D convertible preferred stock, par value $.001, 88,330 shares issued and outstanding in 2003	---	---

Liabilities and Stockholders Deficit	July 31, 2004	October 31, 2003
Additional paid-in capital	12,923	11,745
Accumulated other comprehensive income	40	---
Accumulated deficit	(20,543)	(15,004)
Total stockholders deficit	(7,579)	(3,253)
	$ 49,225	$ 45,882

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 Months Ended	
	July 31, 2004	July 31, 2003	July 31, 2004	July 31, 2003
Net sales	$ 18,227	$ 16,795	$ 46,578	$ 42,802
Cost of sales	15,418	14,390	41,602	37,445
Gross profit	2,809	2,405	4,976	5,357
Selling, general and administrative expenses	2,307	1,976	7,666	6,229
Income (loss) from operations	502	429	(2,690)	(872)
Other income (expense):				
Interest expense, net	(1,187)	(889)	(3,138)	(2,577)
Other income (expense)	16	(59)	41	(52)
Loss before income taxes, discontinued operations	(669)	(519)	(5,787)	(3,501)
Income tax (expense) benefit	(17)	212	(17)	771

	Three Months Ended		Nine Months Ended	
Loss before discontinued operations	(686)	(307)	(5,804)	(2,730)
Loss from discontinued operations, net of tax	--	---	---	(49)
Loss before minority interest	(686)	(307)	(5,804)	(2,779)
Minority interest	(9)	---	(33)	---
Net loss	$ (695)	$ (307)	$ (5,837)	$ (2,779)
Basic and diluted loss per share attributable to common shareholders:				
From continuing operations	$ (0.13)	$ 0.14	$ (2.45)	$ (3.41)
Discontinued operations, net of tax				(0.07)
Net loss per share	$ (0.13)	$ 0.14	$ (2.45)	$ (3.48)
Weighted average common shares outstanding basic and diluted	3,109,333	720,157	1,922,908	720,157

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 Shares	Common Stock Amount	Series C Convertible Preferred Stock Shares	Series C Convertible Preferred Stock Amount	Series D Convertible Preferred Stock Shares	Series D Convertible Preferred Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	720,157	$ 1	3,982,193	$ 5	118,687	$ --	$ 11,745	$ ---	$ (15,004)	$ (3,253)

	Comprehensive Loss	Common Stock Shares	Common Stock Amount	Series C Convertible Preferred Stock Shares	Series C Convertible Preferred Stock Amount	Series D Convertible Preferred Stock Shares	Series D Convertible Preferred Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at October 31, 2003											
Assignment of 16,071 shares of Series D mandatory redeemable Preferred Stock		---	---	---	---	16,071	---	337	---	---	337
Extension of stock options		---	---	---	---	---	---	40	---	---	40
Conversion of Series C and Series D convertible Preferred Stock to common stock		2,064,243	---	(3,982,193)	(5)	(134,758)	---	5	---	---	---
Gain on available-for-sale marketable securities	40	---	---	---	---	---	---	---	40	---	40
Fair value adjustment on redeemable stock		---	---	---	---	---	---	796	---	298	1,094
Net loss	(5,837)	---	---	---	---	---	---	---	---	(5,837)	(5,837)
Total comprehensive loss	$ (5,797)										
Balance at July 31, 2004		2,784,400	$ 1	---	$ ---	$ ---	$ ---	$ 12,923	$ 40	$ (20,543)	$ (7,579)

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 Months Ended

	Nine Months Ended	
	July 31, 2004	July 31, 2003
Cash flow from operating activities:		
Loss from continuing operations	$ (5,837)	$ (2,730)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	2,386	2,232
Other	290	(538)
Changes in operating assets and liabilities:		
Accounts receivable, net	(149)	(1,289)
Inventories, net	(1,026)	(376)
Other, net	1,807	(252)
Net cash used in operating activities	(2,529)	(2,953)
Cash flows from investing activities:		
Purchase of Classic Manufacturing, net of cash acquired	(2,063)	---
Capital expenditures	(944)	(560)
Other	60	23
Net cash used in investing activities	(2,947)	(537)
Cash flows from financing activities:		
Advances from (repayments to) related parties, net	1,167	(1,414)
Net borrowings (repayments) on lines of credit	(658)	1,907
Proceeds on debt for the purchase of Classic Manufacturing	1,937	---
Borrowings (repayments) on long-term debt, including related parties	2,340	2,447
Net cash provided by financing activities	4,786	2,940
Net cash used in discontinued operations	---	(41)
Decrease in cash and cash equivalents	(690)	(591)
Cash and cash equivalents, beginning of period	1,148	920
Cash and cash equivalents, end of period	$ 458	$ 329
Interest paid	$ 1,232	$ 2,577
Taxes paid	$ 57	$ 63

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

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

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

	Nine Months Ended	
	July 31, 2004	July 31, 2003
Supplemental disclosure of noncash operating, investing and financing activities:		
Fair value change on redeemable preferred stock	$ 1,094	$ 275
Assignment and assumption of redeemable preferred stock	$ 337	$ ---
Issuance of redeemable stock in conjunction with the acquisition of Classic	$ 1,250	$ ---
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 redeemable preferred stock in conjunction with the sale of Champion	$ ---	$ 338
Assignment and assumption of redeemable preferred stock to Fair Holdings	$ ---	$ 675
Tax effect of sale of coaches to a related party	$ ---	$ 96
Reclassification of debt due to assumption of credit agreement by Fair Holdings	$ ---	$ 1,488

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

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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

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, 2004 and for the three and nine months ended July 31, 2004 and 2003 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, 2003 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, 2003. 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, 2004, results of operations for the three and nine months ended July 31, 2004 and cash flows and stockholders deficit for the nine months ended July 31, 2004 have been made. The results of operations for the three and nine months ended July 31, 2004 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.

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 luxury 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. In addition, these entities meet the requirements for consolidation under FASB Interpretation No. 46 (FIN No. 46), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51. 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.

Classic Manufacturing, Inc. (Classic) was acquired effective May 1, 2004. Founded in 1964, Classic manufactures a full line of trailers, including cargo, fifth wheel, gooseneck, motorcycle, race, snowmobile and stacker/lift trailers as well as all-aluminum trailers and open trailers used in the landscape industry.

Basis of Presentation:

In the period since June 2001, the Company has incurred losses and reductions in equity. During this period losses and certain third-party debt repayments have been financed with DC Investments, LLC (DC Investments) and its subsidiary Fair Holdings, Inc. (Fair Holdings), entities controlled by the Company s Chairman. Borrowings from DC Investments and Fair Holdings have been on terms that may not have been available from other sources. As of July 31, 2004, total debt outstanding to DC Investments and Fair Holdings was $18,677. The Company incurred a net loss for the year ended October 31, 2003 of $3,873, which included a loss from discontinued operations of $49. In addition, the Company incurred a net loss of $5,837 for the nine months ended July 31, 2004.

The Company has continued to address liquidity and working capital through various means including operational changes, refinancing existing debt and through financial support from Fair Holdings.

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

During 2003, the Company undertook various actions to improve its operations and liquidity. Such actions as described below include the sale of Champion, conversion of debt to equity and refinancing of certain of its debt agreements. Management believes that the Company has financing agreements in place to provide adequate liquidity and working capital. 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 to provide, as needed, additional borrowings under a $15,000 line of credit agreement, which expires January 1, 2007. Currently, availability under the agreement is approximately $5,608.

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, is taking the actions as described below. Although management believes these actions will improve operations and liquidity, there can be no assurance that such actions will sufficiently improve operations or liquidity.

We commenced a strategy in late 2003 of pursuing strategic acquisition opportunities that include targets both in our traditional, basic industries and manufacturing sectors as well as targets that possess assets (including cash) that are outside our traditional areas of focus, and available on terms that our management believed to be attractive. This strategy resulted in the traditional acquisition of Classic effective May 1, 2004. While no material negotiations are currently active with respect to any targets, we anticipate that over the course of 2004 we will pursue acquisition opportunities that we deem attractive in a variety of industry sectors. Ultimately, these acquisitions may (but cannot be guaranteed to) result in our having increased financial resources and potentially a broader asset base and more diversified sources of revenue.

For our butyl rubber reclaiming segment we are actively working on the following:

º Implementation of the new fine grind production process in the butyl rubber reclaiming segment. The new process provides the opportunity to maximize the use of the existing raw materials in the existing butyl reclaim production and also provides potential additional production of natural rubber.

º We continue to organize our butyl rubber reclamation project with chapters of the Future Farmers of America in various states. The success of this project will provide a new resource for obtaining the additional raw materials for our butyl reclaim segment.

º We are currently evaluating and testing different ways to process our raw materials through a cryogenic process. If successful we could potentially benefit from operational efficiencies as well as potential new products.

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

For our trailer manufacturing segment we are actively working on the following:

º Marketing of new products available through the acquisition of Classic Manufacturing, Inc. Pursuit of additional opportunities for growth that may arise as a result of the Classic acquisition.

º Capitalize on the trailer production line that provides a new product line at Danzer Industries to offer its existing and potential new customers. This production line and related sales effort have allowed us to enter a new market along the East coast of the U.S. Our ability to capitalize on this opportunity will be a determining factor on our ability to reduce this operation s use of working capital resources. Management will continue to evaluate the operations on a continuous basis.

Our high level of debt creates liquidity issues for us and the stringent financial covenants that are common for this type of debt increase the probability that our subsidiaries may from time to time be in technical default under these loans. These risks are mitigated, in part, for our United and U.S. Rubber subsidiaries by the right described under Guarantees of Partners, discussed in Note 4. They are also mitigated by the divestiture of Champion completed in January 2003, and the completed refinancing efforts over the past year with respect to U.S. Rubber and the coach leasing segment.

Significant financial covenants in our credit agreements are the maintenance of minimum ratios, levels of earnings to funded debt and fixed charge coverage rate. We did not meet requirements and covenants in certain debt agreements as further discussed in Note 4.

Significant Accounting Policies:

Use of Estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, inventories and deferred tax assets, the fair values of assets and liabilities when allocating the purchase price of acquisitions, and the carrying value of property and equipment and goodwill. Actual results may differ from those estimates.

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 exercise of stock options and warrants, if dilutive.

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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

All references in the financial statements related to share amounts, per share amounts and average shares outstanding have been adjusted retroactively to reflect the 1-to-50 reverse stock split of our common stock effective February 16, 2004.

We have a note payable agreement which is convertible by the holder to common stock totaling 100,000 shares at a conversion rate of $5.00 per share. In addition, we have options outstanding to purchase a total of 16,000 shares of common stock, at a weighted average exercise price of $4.50. However, because we incurred a loss for the periods ended July 31, 2004 and 2003, respectively, the inclusion of those potential common shares in the calculation of diluted loss per share would have an antidilutive effect.

Our Series C Preferred Stock and Series D Preferred Stock, which have all the rights and privileges of our common stock, were convertible into common stock at rates of .40-to-1 and 3.50-to-1, respectively. Following the effective date of the 50 to-1 reverse split of the common stock, these shares were converted to common stock, and such shares are included in the weighted average common shares outstanding from the date of conversion. There were no shares of preferred stock outstanding as of July 31, 2004.

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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 Months Ended	
	July 31, 2004	July 31, 2003	July 31, 2004	July 31, 2003
Loss before discontinued operations and minority interest	$ (686)	$ (307)	$ (5,804)	$ (2,730)
Change in fair value of mandatory redeemable stock	298	411	1,094	275
Income (loss) attributable to common shareholders before discontinued operations	(388)	104	(4,710)	(2,455)
Loss from discontinued operations, net of tax	---	---	---	(49)
Net income (loss) attributable to common shareholders	$ (388)	$ 104	$ (4,710)	$ (2,504)
Weighted average common shares outstanding:				
Basic and diluted	3,109,333	720,157	1,922,908	720,157
Earnings (loss) per share, basic and diluted, attributable to common shareholders:				
From continuing operations	$ (0.13)	$ 0.14	$ (2.45)	$ (3.41)
From discontinued operations, net of tax	---	---	---	(0.07)
Net income (loss) per share	$ (0.13)	$ 0.14	$ (2.45)	$ (3.48)

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 loss per share would remain the same. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. There were no stock options issued for the three and nine months ended July 31, 2004 and 2003. During 2004, certain options were extended. Their effect on pro forma net income was immaterial.

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

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

2. INVENTORIES

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

	July 31, 2004	October 31, 2003
Raw materials	$ 5,985	$ 4,647
Work-in-process	934	499
Finished goods	2,747	2,630
Valuation reserve	(321)	(321)
Total	$ 9,345	$ 7,455

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 112,500 shares of the Company s Common Stock. In addition, the agreement provides Markpoint the option to require the Company to repurchase these shares at a price of $21 per share. During 2003 the option agreement was assigned to Fair Holdings and Markpoint exercised this option under the agreement and Fair Holdings purchased the stock. 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.

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 are as follows:

	Nine Months Ended	
	July 31, 2004	July 31, 2003
Net sales	$ ---	$ 170
Operating expenses	---	(286)
Interest	---	(85)
Other	---	127
Tax benefit	---	25

	Nine Months Ended	
Net loss	$ ---	$ (49)

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(unaudited)

4. FINANCING ARRANGEMENTS

United

At July 31, 2004, United was not in compliance with financial covenants with Huntington Capital Investment Company. Huntington Capital Investment Company covenants require the Company to maintain a minimum level of fixed charge coverage. Huntington waived their covenant violations and we are currently working with Huntington to modify the covenants.

Obsidian Leasing

At July 31, 2004 Obsidian Leasing, Inc. was not in compliance with their fixed charge coverage ratio with Old National Bank covenant requiring a fixed charge coverage ratio of not less than 1.15 to 1.0. The Company did not receive a waiver and all debt due to Old National Bank in the amount of $ 3,516 is classified as a current liability.

Guarantees Of Partners

We have an agreement with Partners that gives us 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 $1,370 on U.S. Rubber and $1,000 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.

5. MINORITY INTEREST IN AFFILIATE

As discussed in Note 1, DW Leasing and DC Investments Leasing, entities controlled by the Company s Chairman are included in these consolidated financial statements and are subject to the provisions of FIN No. 46. Historically, these entities generated negative operating results and the operating model did not anticipate income in excess of losses previously recognized in the consolidated financial statements. During 2003 and through the 3rd quarter of 2004, DC Investments Leasing reported positive operating results. As a result, minority interest related to the income of DC Investments Leasing in the amount of $33 has been recorded as a charge in the July 31, 2004 statement of operations and has been recognized on the balance sheet. Future operating results of DC Investments Leasing, if positive, will continue to be charged to minority interest. In addition, should DW Leasing generate future income in excess of previously recognized losses, such amounts would be charged to minority interest in the consolidated statement of operations and recognized as minority interest on the consolidated balance sheet. During the nine months ended July 31, 2004, DW Leasing recorded a net loss of $13. As of July 31, 2004, accumulated losses of DW Leasing recognized in consolidated statements of operations exceeded income by approximately $331.

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6. REDEEMABLE STOCK

In conjunction with financing of the acquisition of United, the Company issued 154,482 shares of common 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. At July 31, 2004, 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, 2004.

On May 1, 2004, the Company issued 170,451 shares of common stock as part of the acquisition of Classic. These shares are classified as redeemable stock. With the acquisition of Classic effective May 1, 2004, we issued 170,451 shares of our common stock to the former owners of Classic. The purchase agreement for Classic included a provision that gives the sellers the right to have us redeem these shares at a price of$ 6.5970 per share within five years of the date of issuance of the shares. The sellers have the right to partially redeem these shares in increments of 10,000 or more shares per transaction. The agreement also has an automatic termination provision if the Company's shares have traded at a closing price of greater than $7.33 per share for any consecutive period of 60 trading days during the period of time commencing on the date there are no restrictions on the seller s sale of shares and ending on the fifth anniversary of the agreement.

On November 10, 2003, Markpoint exercised its remaining Put Option that was assigned to Fair Holdings, as discussed in Note 3. Markpoint was paid $337 by Fair Holdings and the exercise of the option resulted in a reduction in redeemable preferred stock and an increase in additional paid-in capital of$337.

7. STOCKHOLDERS DEFICIT

On December 3, 2003, the Company s stockholders and Board of Directors approved a 50-to-1 reverse stock split. The reverse stock split was effective for trading purposes as of February 16, 2004. As a result of the reverse stock split and the amendment to the Certificate of Incorporation, approximately 720,157 shares of common stock were outstanding and the number of authorized shares of common stock was reduced to 10,000,000.

On March 12, 2004, the preferred shares for Series C and D were converted to common, which increased common stock outstanding by 2,219,013 shares including 154,482 shares classified as redeemable stock. Preferred shares authorized remain five million shares with no preferred shares issued or outstanding as of July 31, 2004.

On December 31, 2003, the Company s Board of Directors approved the extension of the expiration date of 4,000 fixed stock options, exercisable at $2.50. The original expiration date of December 31, 2003 was extended to June 30, 2004. The Company recognized $40 of compensation expense related to the extension of the options during the nine months ended July 31, 2004.

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OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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8. 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, 2004

	Trailer Manufacturing	Coach Leasing	Butyl Rubber Reclaiming	Total Segments	Corporate	Consolidated
Sales:						
Domestic	$ 12,570	$ 1,713	$ 2,513	$ 16,796	$ ---	$ 16,796
Foreign	1,265	---	166	1,431	---	1,431
Total	$ 13,835	$ 1,713	$ 2,679	$ 18,227	$ ---	$ 18,227
Cost of goods sold	$ 12,012	$ 928	$ 2,478	$ 15,418	$ ---	$ 15,418
Income (loss) before taxes and minority interest	$ 282	$ (103)	$ (131)	$ 48	$ (717)	$ (669)
Identifiable assets	$ 24,451	$ 13,858	$ 9,989	$ 48,298	$ 927	$ 49,225
Depreciation and amortization expense	$ 195	$ 233	$ 322	$ 750	$ 34	$ 784
Interest expense	$ 420	$ 434	$ 123	$ 977	$ 210	$ 1,187

Three Months Ended July 31, 2003

	Trailer Manufacturing	Coach Leasing	Butyl Rubber Reclaiming	Total Segments	Corporate	Consolidated
Sales:						
Domestic	$ 10,402	$ 2,562	$ 2,338	$ 15,302	$ ---	$ 15,302
Foreign	1,132	---	361	1,493	---	1,493
Total	$ 11,534	$ 2,562	$ 2,699	$ 16,795	$ ---	$ 16,795
Cost of goods sold	$ 10,378	$ 1,525	$ 2,487	$ 14,390	$ ---	$ 14,390
Income (loss) before taxes						

	Three Months Ended July 31, 2003					
and minority interest	$ (427)	$ 153	$ (141)	$ (415)	$ (104)	$ (519)
Identifiable assets	$ 20,163	$ 14,167	$ 10,993	$ 45,323	$ 559	$ 45,882
Depreciation and amortization expense	$ 176	$ 281	$ 329	$ 786	$ ---	$ 786
Interest expense	$ 357	$ 311	$ 117	$ 785	$ 104	$ 889

OBSIDIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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8. BUSINESS SEGMENT DATA AND GEOGRAPHIC DATA, CONTINUED

	Nine Months Ended July 31, 2004					
	Trailer Manufacturing	Coach Leasing	Butyl Rubber Reclaiming	Total Segments	Corporate	Consolidated
Sales:						
Domestic	$ 31,425	$ 3,727	$ 6,985	$ 42,137	$ ---	$ 42,137
Foreign	3,413	---	1,028	4,441	---	4,441
Total	$ 34,838	$ 3,727	$ 8,013	$ 46,578	$	