

Edgar Filing: EURO TRADE FORFAITING INC - Form 10-Q

EURO TRADE FORFAITING INC
Form 10-Q
May 15, 2002

=====

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 000-26031

EURO TRADE & FORFAITING, INC.
(Exact name of Registrant as specified in its charter)

UTAH	87-0571580
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

SUITE 1620, 400 BURRARD STREET, VANCOUVER, BRITISH COLUMBIA, CANADA, V6C 3A6
(Address of principal executive offices)

(604) 683-5767
(Registrant's telephone number, including area code)

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 the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

Class -----	Outstanding at May 14, 2002 -----
Common Stock, \$0.001 par value	22,240,724

Edgar Filing: EURO TRADE FORFAITING INC - Form 10-Q

FORWARD-LOOKING STATEMENTS

Statements in this report, to the extent that they are not based on historical events, constitute forward-looking statements. Forward-looking statements include, without limitation, statements regarding the outlook for future operations, forecasts of future costs and expenditures, evaluation of market conditions, the outcome of legal proceedings, the adequacy of reserves, or other business plans. Investors are cautioned that forward-looking statements are subject to an inherent risk that actual results may vary materially from those described herein. Factors that may result in such variance, in addition to those accompanying the forward-looking statements, include changes in interest rates, prices, and other economic conditions; actions by competitors; natural phenomena; actions by government authorities; uncertainties associated with legal proceedings; technological development; future decisions by management in response to changing conditions; and misjudgments in the course of preparing forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EURO TRADE & FORFAITING, INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED MARCH 31, 2002

(UNAUDITED)

2

EURO TRADE & FORFAITING, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(IN THOUSANDS OF DOLLARS)

	MARCH 31, 2002	JUNE 30, 2001
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 17,089	\$ 16,535

Edgar Filing: EURO TRADE FORFAITING INC - Form 10-Q

Forfaiting assets	1	1
Investments	7,904	7,295
Note receivable - affiliate	5,000	5,000
Interest receivable	185	223
Deposits and other current assets	421	920
	-----	-----
	\$ 30,600	\$ 29,974
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities		
Accounts payable and other accrued expenses	\$ 864	\$ 490
	-----	-----
Total liabilities	864	490
Shareholders' equity		
Common stock	22	22
Additional paid-in capital	35,139	35,139
Deficit	(5,425)	(5,677)
	-----	-----
Total shareholders' equity	29,736	29,484
	-----	-----
	\$ 30,600	\$ 29,974
	=====	=====

The accompanying notes are an integral part of these financial statements.

EURO TRADE & FORFAITING, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) (IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	FOR THE NINE MONTHS ENDED MARCH 31, 2002	FOR THE NINE MONTHS ENDED MARCH 31, 2001
	-----	-----
Revenue	\$ 1,145	\$ (603)
Expenses		
Interest	-	25
General and administrative	1,289	1,481
Foreign currency transaction losses (gains)	(396)	373
	-----	-----
	893	1,879

Edgar Filing: EURO TRADE FORFAITING INC - Form 10-Q

	-----	-----
Net income (loss)	\$ 252	\$ (2,482)
	=====	=====
Basic and diluted earnings (loss) per share	\$ 0.01	\$ (0.12)
	=====	=====
Weighted average number of common shares outstanding (in thousands)	22,241	21,182
	=====	=====

The accompanying notes are an integral part of these financial statements.

4

EURO TRADE & FORFAITING, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) (IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	FOR THE THREE MONTHS ENDED MARCH 31, 2002 -----	FOR THE THREE MONTHS ENDED MARCH 31, 2001 -----
Revenue	\$ 361	\$ (626)
Expenses		
General and administrative	505	402
Foreign currency transaction losses	289	564
	-----	-----
	794	966
	-----	-----
Net loss	\$ (433)	\$ (1,592)
	=====	=====
Basic and diluted loss per share	\$ (0.02)	\$ (0.06)
	=====	=====
Weighted average number of common shares outstanding (in thousands)	22,241	25,310
	=====	=====

The accompanying notes are an integral part of these financial statements.

EURO TRADE & FORFAITING, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS OF DOLLARS)

	FOR THE NINE MONTHS ENDED MARCH 31, 2002 -----	FOR THE NINE MONTHS ENDED MARCH 31, 2001 -----
Cash Flows from Operating Activities		
Net income (loss)	\$ 252	\$ (2,482)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Investment income (loss)	(299)	1,177
Changes in current assets and liabilities:		
Interest receivable	38	111
Forfaiting assets	-	3,616
Accounts payable and other accrued expenses	374	(20)
Purchase of investments	(6,738)	(3,179)
Proceeds from sale of investments	6,428	177
Other	499	(592)
	-----	-----
Net cash provided by (used in) operating activities	554	(1,192)
	-----	-----
Cash Flows from Investing Activities		
Purchase of available for sale securities	-	(427)
	-----	-----
Net cash used in investing activities	-	(427)
	-----	-----
Cash Flows from Financing Activities		
Loan repayment to banks	-	(3,681)
Change in restricted cash balances	-	1,139
Repurchase of common shares	-	(500)
Issuance of common shares and warrants	-	10,557
	-----	-----
Net cash provided by financing activities	-	7,515
	-----	-----
Net increase in cash and cash equivalents	554	5,896
Cash and cash equivalents, beginning of period	16,535	16,338
	-----	-----
Cash and cash equivalents, end of period	\$ 17,089	\$ 22,234
	=====	=====

Edgar Filing: EURO TRADE FORFAITING INC - Form 10-Q

The accompanying notes are an integral part of these financial statements.

6

EURO TRADE & FORFAITING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

Note 1. Basis of Presentation

The interim period consolidated financial statements contained herein include the accounts of Euro Trade & Forfaiting, Inc. and its subsidiaries (collectively, the "Company").

The interim period consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such SEC rules and regulations. The interim period consolidated financial statements should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual report on Form 10-K for the fiscal year ended June 30, 2001. In the opinion of the Company, the unaudited consolidated financial statements contained herein contain all adjustments necessary to present a fair statement of the results of the interim periods presented.

Note 2. (Loss) Earnings Per Share

Basic (loss) earnings per share is computed by dividing (loss) income available to common shareholders by the weighted average number of common shares outstanding in the period.

Diluted (loss) earnings per share takes into consideration common shares outstanding (computed under basic (loss) earnings per share) and potentially dilutive common shares. The potentially dilutive common shares did not have an impact on diluted earnings per share for the nine months and three months ended March 31, 2002 and 2001, respectively, because the warrants to purchase common shares were anti-dilutive.

Note 3. Forfaiting Assets

Forfaiting is a method of financing international trade. The Company purchases from an exporter the debt due from an importer when credit is required. The debt is usually evidenced by a series of negotiable financial instruments such as promissory notes or by deferred payment letters of credit opened by a bank. The notes are usually guaranteed by a bank in the importer's country and, subject to the quality of the guarantor, become marketable amongst international banks and other financial institutions. In forfaiting, the notes are purchased without recourse to the exporter.

Management makes regular credit reviews of the forfaiting portfolio on an

Edgar Filing: EURO TRADE FORFAITING INC - Form 10-Q

individual loan basis. Past experience, current economic conditions and problems associated with borrowers are all factors in determining the adequacy of the allowance for losses. The allowance is increased by provision charged to operating expense, and reduced by recoveries and charge-offs.

Note 4. Reclassifications

Certain comparative figures have been reclassified to conform with the current period's presentation.

7

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis of the financial condition and results of operation of the Company for the nine month and three month periods ended March 31, 2002 should be read in conjunction with the consolidated financial statements and related notes included in this quarterly report.

Results of Operations - Nine Months Ended March 31, 2002

Revenues for the nine month period ended March 31, 2002 increased to \$1.1 million from \$(0.6) million for the comparative period of 2001, primarily as a result of an increase in investment income.

Expenses for the nine month period ended March 31, 2002 decreased to \$0.9 million from \$1.9 million in the comparative period of 2001, primarily as a result of foreign currency transaction gains and reduced forfaiting activities during the current period.

The Company had net income of \$0.3 million, or \$0.01 per share, for the nine month period ended March 31, 2002, compared to a net loss of \$2.5 million, or \$0.12 per share, for the comparative period of 2001.

No tax provision has been made for the nine month period ended March 31, 2002, based on expected tax liability for the fiscal year. The Company is subject to the tax laws of both the United Kingdom and the United States.

Results of Operations - Three Months Ended March 31, 2002

Revenues for the three month period ended March 31, 2002 increased to \$0.4 million from \$(0.6) million for the comparative period of 2001, primarily as a result of an increase in investment income.

Expenses for the three month period ended March 31, 2002 decreased to \$0.8 million from \$1.0 million for the comparative period of 2001, primarily as a result of reduced foreign currency transaction losses during the current period.

The Company had a net loss of \$0.4 million, or \$0.02 per share, for the three month period ended March 31, 2002, compared to \$1.6 million, or \$0.06 per share, for the comparative period of 2001.

No tax provision has been made for the three month period ended March 31, 2002,

Edgar Filing: EURO TRADE FORFAITING INC - Form 10-Q

based on expected tax liability for the fiscal year.

Liquidity and Capital Resources

The Company had working capital at March 31, 2002 of \$29.7 million, compared to \$29.5 million at June 30, 2001. Cash and cash equivalents increased to \$17.1 million at March 31, 2002 from \$16.5 million at June 30, 2001. At March 31, 2002, the Company had total assets of \$30.6 million and

8

total shareholders' equity of \$29.7 million, compared to total assets of \$30.0 million and total shareholders' equity of \$29.5 million at June 30, 2001.

Net cash provided by operating activities for the nine month period ended March 31, 2002 was \$0.6 million, compared to operating activities using cash of \$1.2 million in the same period of 2001. Net purchases of investments used cash of \$0.3 million in the current period, compared to \$3.0 million in the comparative period of 2001. Forfaiting activities did not provide any cash during the current period, compared to providing cash of \$3.6 million in the comparative period of 2001. An increase in accounts payable and accrued expenses provided cash of \$0.4 million in the current period, compared to a decrease in same using cash of \$20,000 in the comparative period of 2001. A decrease in other current assets provided cash of \$0.5 million in the current period, compared to an increase in same using cash of \$0.6 million in the comparative period of 2001.

Net cash used in investing activities in the current period was nil compared to \$0.4 million in the comparative period of 2001, primarily due to purchases of securities.

Net cash provided by financing activities for the nine month period ended March 31, 2002 was nil, compared to \$7.5 million in the same period in 2001, primarily due to the share issuance completed in November 2000.

Foreign Currency

Substantially all of the Company's operations are conducted in international markets and its consolidated financial results are subject to foreign currency exchange rate fluctuations. As at March 31, 2002, approximately 75% of the Company's cash and cash equivalents were denominated in Euros.

Since a substantial portion of the Company's revenues and assets are denominated in foreign currencies, the financial position of the Company for any given period, when reported in U.S. dollars, can be significantly affected by the exchange rates prevailing during that period.

The Company does not currently enter into any currency hedging arrangements for exchange rate fluctuations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to the Company's annual report on Form 10-K for the year ended June 30, 2001 for information concerning market risk. The Company is of the opinion that there have been no material changes in market risk since June 30, 2001.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the Company's annual report of Form 10-K for the fiscal year ended June 30, 2001 for information concerning legal proceedings.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 14, 2002

EURO TRADE & FORFAITING, INC.

By: /s/ Michael J. Smith

Michael J. Smith
President and Chief
Executive Officer