

EUROPEAN MICRO HOLDINGS INC  
Form 10QSB  
October 16, 2006

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

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

Commission File Number 333-44393

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

For the transition period from \_\_\_\_\_ TO \_\_\_\_\_

**EUROPEAN MICRO HOLDINGS, INC.**  
(Exact name of registrant as specified in charter)

**Nevada**  
(State or other jurisdiction of incorporation or  
organization)

**65-0803752**  
(I.R.S. Employer I.D. No.)

**450 Fairway Drive, Suite 105, Deerfield Beach,**  
**Florida**  
(Address of principal executive offices)

**33441**  
(Zip)

**(954) 596-0249**  
Issuer's telephone number, including area code

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the past twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act subsequent to the distribution of securities under a plan confirmed by a court.  Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Edgar Filing: EUROPEAN MICRO HOLDINGS INC - Form 10QSB

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: **As of [July 31, 2006], the Company had 5,029,667 shares of common stock issued and outstanding.**

---

Transitional Small Business Disclosure Format: Yes  No

---

**PART I**

**Financial Information**

**Item 1. Financial Statements.**

**Index to Condensed Consolidated Financial Statements**

Condensed Consolidated Statement of Net Assets in liquidation (Unaudited) as of March 31, 2004 (Liquidation Basis)	3
Condensed Consolidated Statements of Changes in Net Assets (Unaudited) for the Three and Nine Months Ended March 31, 2004 and 2003 (Liquidation Basis)	4
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three and Nine Months Ended March 31, 2004 and 2003 (Liquidation Basis)	5
Notes to Condensed Consolidated Financial Statements as of March 31, 2004 (Unaudited)	7

## European Micro Holdings, Inc. and Subsidiaries

## Condensed Consolidated Statement of Net Assets in liquidation as of March 31, 2004

(Liquidation Basis)

(In thousands)

(Unaudited)

	March 31, 2004
<b>ASSETS</b>	
<b>ASSETS:</b>	
Cash	\$ 71
Income taxes receivable	1,141
<b>TOTAL ASSETS</b>	<b>\$ 1,212</b>
<b>LIABILITIES</b>	
<b>LIABILITIES:</b>	
Accrued expenses and other liabilities	\$ 347
Due to related parties	213
<b>TOTAL LIABILITIES</b>	<b>\$ 560</b>
<b>COMMITMENT AND CONTINGENCIES</b>	
<b>NET ASSETS IN LIQUIDATION (available to holders of Common Stock)</b>	<b>\$ 652</b>

See accompanying notes to condensed consolidated financial statements.

## European Micro Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Net Assets for the Three and Nine Months Ended  
March 31, 2004 and 2003

(Liquidation Basis)

(In thousands)

(Unaudited)

	Three Months ended March 31,		Nine Months ended March 31,	
	2004	2003	2004	2003
<b>SALES:</b>				
Net sales	\$ -	\$ -	\$ -	\$ -
<b>COST OF GOODS SOLD:</b>				
Cost of goods sold	-	-	-	-
<b>GROSS PROFIT</b>				
	-	-	-	-
<b>OPERATING EXPENSE:</b>				
Selling, general and administrative expenses	(22)	(66)	(54)	(88)
<b>LOSS FROM OPERATIONS</b>				
	(22)	(66)	(54)	(88)
<b>OTHER INCOME (EXPENSE)</b>				
Interest income	-	33	3	34
Interest expense	-	(6)	-	(6)
<b>TOTAL OTHER INCOME (EXPENSE)</b>				
	-	27	3	28
<b>NET LOSS</b>				
	(22)	(39)	(51)	(60)
<b>NET ASSETS BEGINNING OF PERIOD</b>				
	652	661	618	649
<b>EFFECT OF FOREIGN EXCHANGE RATES</b>				
	22	(13)	85	20
<b>NET ASSETS IN LIQUIDATION</b>				
	\$ 652	\$ 609	\$ 652	\$ 609

See accompanying notes to condensed consolidated financial statements.

**European Micro Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(Liquidation Basis)**  
(In thousands)  
(Unaudited)

	<b>Nine Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (51)	\$ (60)
<i>Changes in assets and liabilities</i>		
Accounts receivable	—	49
Prepaid expenses and other assets	—	13
Income tax receivable	(121)	604
Accounts payable	(43)	50
Accrued expenses and other liabilities	(78)	(358)
Due to related parties	21	(27)
<i>Net cash (used in) provided by operating activities</i>	(272)	271
Effect of foreign exchange rates	85	20
<b>NET (DECREASE) INCREASE IN CASH</b>	(187)	291
Cash at beginning of period	258	107
<b>CASH AT END OF PERIOD</b>	<b>\$ 71</b>	<b>\$ 398</b>

See accompanying notes to condensed consolidated financial statements.

**European Micro Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(Liquidation Basis)**  
(In thousands)  
(Unaudited)

	<b>Nine Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ -	\$ 6
Cash paid for taxes	\$ -	\$ -

See accompanying notes to condensed consolidated financial statements.

**European Micro Holdings, Inc. and Subsidiaries**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**As of March 31, 2004**  
**(Unaudited)**

**1 Summary of Significant Accounting Policies**

**Interim Financial Statements**

The accompanying condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"), and under the liquidation basis of accounting since July 1, 2001, and pursuant to the rules and regulations for reporting on Form 10-QSB. These financial statements have not been audited by independent public accountants but include all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the net assets, financial condition, results of operations and cash flows for such periods. However, these results are not necessarily indicative of results for any other interim period or for the full year. Accordingly, certain information and notes required by GAAP for complete financial statements are not included herein. The interim statements should be read in conjunction with the Company's financial statements and notes thereto included in the Company's 2003 Annual Report on Form 10-KSB.

**Principles of Consolidation**

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.



**EUROPEAN MICRO HOLDINGS, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**As of March 31, 2004**

**(Unaudited)**

**2 Liquidation**

The Company had suffered operating losses in fiscal 2000 and 2001. Ongoing legal costs associated with the litigation related to Big Blue Europe, the costs associated with the Company's electronic commerce strategy, increases in general overhead costs, and increased interest expense due primarily to increased borrowings, coupled with decreasing sales volumes and gross profit margins, negatively impacted operating results. These factors resulted in the noncompliance of the financial covenants of the Company's loan agreements. Due to these operating results and the covenant violations, the lender on the American Micro and Nor'Easter lines of credit and the European Micro Holdings, Inc. term loan demanded repayment of the Nor'Easter line of credit before June 15, 2001 and the American Micro line of credit and the European Micro Holdings term loan by August 15, 2001. As a result, during April 2001, the Company decided to cease operations at Nor'Easter and during June 2001, the Company decided to cease operations at Colchester. The Nor'Easter line of credit was repaid on June 15, 2001. The American Micro line of credit was repaid during May 2001. The European Micro Holdings term loan was repaid on August 21, 2001.

The contingent earn-out payment of the American Micro acquisition relating to two times the after tax earnings for calendar year 2000 of approximately \$1,839,000 was due to the former American Micro shareholders. As a result of financial restrictions imposed by the lender on the American Micro and Nor'Easter lines of credit, on February 20, 2001, the Company delivered two Secured Promissory Notes ("Notes") to the former American Micro shareholders in the original amount of \$823,712 each. The Notes called for monthly principal payments of \$50,000, plus interest at 8% commencing April 1, 2001, subject to financial covenant restrictions. Each Note was due in full within (30) days of the satisfaction of the American Micro and Nor'Easter lines of credit. On July 15, 2001, the Company notified the former American Micro shareholders that it would be unable to meet its obligations under each Note. After the repayment of the American Micro and Nor'Easter lines of credit along with the repayment of the European Micro Holdings, Inc. term loan, the Company was no longer restricted from performing its obligations to the American Micro shareholders. On August 22, 2001 the former American Micro shareholders demanded full payment of the Notes. On September 1, 2001 the Notes to the former American Micro shareholders were settled by transfer of all American Micro shares from European Micro Holdings to the former American Micro shareholders.

Another factor that negatively impacted the Company's liquidity was the terms of the borrowing arrangements of European Micro UK. European Micro UK's borrowing capacity was subject to termination by the lender at lender's sole discretion and during August, 2001 the lender on the European Micro UK's line of credit demanded repayment. European Micro UK was able to repay the line of credit with a loan from a significant shareholder. This loan from a significant shareholder was completely repaid on April 3, 2003.

Hence, with the complete termination of all lines of credit available to the Company, the closures of Nor'easter and Colchester and the loss of American Micro, the Company had no alternative but to proceed with a complete liquidation of all assets. On July 12, 2005, the Company declared a cash dividend in the aggregate amount of \$200,000 on the issued and outstanding shares of Common Stock held by shareholders of record as of August 1, 2005. The dividend was paid on September 1, 2005. As of July 31, 2006, liquidation is almost complete with the only asset being cash in the approximate amount of \$20,000.

**EUROPEAN MICRO HOLDINGS, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**As of March 31, 2004**

**(Unaudited)**

**3 Related Party Transactions**

There have not been any related party sales or purchases since June 2001.

*Due from/to related parties*

a) No amounts were due from related parties at March 31, 2004.

b) Due to related parties consists of a note payable to Harry Shields in the amount of \$213,000.

*Nature of related party relationships*

The entities listed above were related to the company in the following manner:

**Technology Express**

Until 1996, Technology Express was a full service authorized reseller of computers and related products based in Nashville, Tennessee, selling primarily to end-users. Technology Express was sold to Inacom Computers in 1996. Concurrently with the sale, Mr. Shields founded a new computer company with the name Technology Express. This company was a distributor of computer products. Harry D. Shields, who is Co-Chairman, Co-President, a Director and shareholder (owning 31% of the outstanding shares) of European Micro Holdings, Inc., was president of Technology Express and owned 100% of the outstanding shares of capital stock of that company. Jay Nash, who is Chief Financial Officer, Treasurer and Secretary of European Micro Holdings, Inc., had been an employee of Technology Express since 1992.

**Harry Shields**

Harry D. Shields is Co-Chairman, Co-President, a Director and shareholder (owning 31% of the outstanding shares) of European Micro Holdings, Inc.

**John B. Gallagher**

John B. Gallagher is Co-Chairman, Co-President, Director and shareholder (owning 39% of the outstanding shares) of European Micro Holdings, Inc. He was also the president of American Micro Computer Center and owns 50% of the outstanding shares of capital stock in that company.

**EUROPEAN MICRO HOLDINGS, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**As of March 31, 2004**

**(Unaudited)**

**4 Equity Line of Credit**

On August 24, 2000, European Micro Holdings, Inc. entered into an Equity Line of Credit (the "Equity Credit Line"). The Company incurred costs of \$217,000 to obtain and execute the Equity Credit Line. On December 20, 2000, the Company raised \$50,000 by issuing 25,020 shares of common stock under the Equity Credit Line. The Company and the investor agreed to terminate the Equity Credit Line effective May 15, 2001. In connection with such termination, all outstanding warrants held by the investor and the placement agent were terminated. The Company agreed to issue the placement agent warrants to purchase 500,000 shares of common stock at \$5.00 per share, which warrants become exercisable only if the closing bid price of such common stock is \$4.00 per share or more for ten consecutive trading days. These warrants expired on August 23, 2005. Since the closing bid price of the common stock was never \$4.00 for ten consecutive trading days, the warrants never became exercisable, and as such no expense was recognized.

**5 Commitments and Contingencies**

On November 12, 1999, a New York corporation, Big Blue Products, and its owners Jeffrey and Marie Alnwick (the "Alnwicks"), commenced an action individually and derivatively for the Dutch company, Big Blue Europe, against the Company and its founders and officers, John B. Gallagher and Harry D. Shields in the United States District Court, Eastern District of New York, Jeffrey Alnwick and Marie Alnwick v. European Micro Holdings, Inc., Eastern District of New York, Docket No. 99 CV 7380 (the "Alnwick Litigation").

The complaint alleged thirty-three causes of action. Plaintiffs claimed, in substance, that defendants breached oral and written agreements relating to the management, operation and funding of Big Blue Europe. Specifically, plaintiffs alleged that defendants breached the joint venture agreement by which Big Blue Europe was formed, a licensing agreement for use of the "Big Blue" service mark in Europe, a non-competition agreement preventing Big Blue Europe from operating in the United States and several capital contribution agreements. Plaintiffs also claimed that defendants breached their fiduciary duties to the Alnwicks, engaged in fraudulent acts, aided and abetted breaches of fiduciary duties by others, misappropriated trade secrets and interfered with the employment contract of Big Blue Europe's managing director. The complaint sought unspecified compensatory and punitive damages, as well as injunctive relief restraining defendants from acting in violation of the alleged agreements.

Defendants moved to dismiss the complaint principally on the basis of forum non-conveniens in favor of existing proceedings in the Netherlands (commenced by European Micro UK), where a Dutch court appointed an independent director to oversee operations of the company. Defendants argued that any dispute between the shareholders and directors of the Dutch company, Big Blue Europe, which operated pursuant to Dutch law, should be resolved by a Dutch court. The United States District Court for the Eastern District of New York dismissed 31 of the 33 claims brought against the Company on grounds of "forum non conveniens." The Court decided that it would be more appropriate that these claims be adjudicated in The Netherlands, under Dutch Law. The Judge had granted the Plaintiffs in the case (Jeffrey and Marie Alnwick and Big Blue Products) the option to proceed with the remaining two allegations in United States District Court. Plaintiffs requested that these two counts also be dismissed. On April 19, 2001, the Plaintiffs filed a notice of appeal. In October 2003, the Company and its affiliated defendants entered into a settlement agreement with the plaintiffs. In accordance with the agreement, all parties dismissed all actions and released all claims.



**EUROPEAN MICRO HOLDINGS, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**As of March 31, 2004**

**(Unaudited)**

In January 2001, Nor'Easter sued Arlington Computer Products, Inc. ("Arlington") in the Superior Court of Rockingham County, New Hampshire, for breach of an agreement to pay for the purchase of laptop computers. Nor'Easter subsequently sued Arlington in the Circuit Court of Lake County, Illinois, to enforce a judgment obtained in the New Hampshire Litigation. In addition, Arlington sued Nor'Easter in the United States District Court for the Northern District of Illinois for breach of an agreement to sell Compaq computer memory modules. Nor'Easter filed a third party complaint in the Federal Litigation against Origin Micro, Inc. ("Origin") for breach of an agreement to sell Compaq computer memory modules.

In June 2002, Nor'Easter and Arlington entered into a settlement agreement whereby on June 20, 2002, Arlington paid Nor'Easter the sum of \$52,556 and both parties discontinued the litigation and released all claims against each other. In July 2002, Nor'Easter and Origin entered into a settlement agreement whereby on July 29, 2002, Origin paid Nor'Easter the sum of \$49,000 and both parties discontinued the litigation and released all claims.

In December 2001, a former shareholder of Sunbelt served a statutory demand upon European Micro UK in the sum of 92,710 pounds sterling. This sum was subsequently reduced to 73,940 pounds sterling. On April 19, 2002 Judge Kershaw QC granted the European Micro UK an injunction preventing the former shareholder from presenting a petition in this sum based upon the statutory demand. On July 31, 2002 the Court of Appeal dismissed European Micro UK's claim and ordered the costs to be paid. In August 2003, the debt plus costs and interest owed the former shareholder of Sunbelt was assigned to Harry Shields, a shareholder of European Micro Holdings, Inc., for the sum of 107,000 pounds sterling, (approximately \$195,000 at exchange rate on March 31, 2004). This amount is included in due to related parties in the accompanying condensed consolidated statement of net assets in liquidation as of March 31, 2004. This amount plus interest of 9,483 pounds sterling was repaid by European Micro UK to Harry Shields on August 10, 2004.

**6 Subsequent Events**

In December 2001, a former shareholder of Sunbelt served a statutory demand upon European Micro UK in the sum of 92,710 pounds sterling. This sum was subsequently reduced to 73,940 pounds sterling. On April 19, 2002 Judge Kershaw QC granted the European Micro UK an injunction preventing the former shareholder from presenting a petition in this sum based upon the statutory demand. On July 31, 2002 the Court of Appeal dismissed European Micro UK's claim and ordered the costs to be paid. In August 2003, the debt plus costs and interest owed the former shareholder of Sunbelt was assigned to Harry Shields, a shareholder of European Micro Holdings, Inc., for the sum of 107,000 pounds sterling. This amount plus interest of 9,483 pounds sterling was repaid by European Micro UK to Harry Shields on August 10, 2004.

On July 12, 2005, the Company declared a cash dividend in the aggregate amount of \$200,000 on the issued and outstanding shares of Common Stock held by shareholders of record as of August 1, 2005. The dividend was paid on September 1, 2005. As of July 31, 2006, liquidation is almost complete with the only asset being cash in the approximate amount of \$20,000.

## EUROPEAN MICRO HOLDINGS, INC.

### **Item 2. Management's Discussions and Analysis or Plan of Operation.**

#### **Introductory Statements**

*Forward-Looking Statements and Associated Risks. This filing contains forward-looking statements, including statements regarding European Micro Holdings, Inc.'s ("European Micro" or the "Company") projections on the amount and timing of liquidating distribution. In addition, when used in this filing, the words "believes," "anticipates," "intends," "anticipation of," "expects," and similar words are intended to identify certain forward-looking statements. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, many of which are beyond the Company's control. Actual results could differ materially from these forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. The Company does not undertake any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.*

*Unless the context otherwise requires and except as otherwise specified, references herein to "European Micro" or the "Company" include European Micro Holdings, Inc. and its five wholly-owned subsidiaries, European Micro Plc, a company organized under the laws of the United Kingdom ("European Micro UK"), Nor'Easter Micro, Inc., a Nevada corporation ("Nor'Easter"), Colchester Enterprise Pte. Ltd., a company organized under the laws of Singapore ("Colchester"), American Micro Computer Center, Inc., a Florida corporation ("American Micro"), Engenis.com Ltd., a company organized under the laws of the United Kingdom ("Engenis"), (collectively, the five wholly-owned subsidiaries are referred to as the "Subsidiaries").*

#### **Overview**

The Company was an independent distributor of microcomputer products, including personal computers, memory modules, disc drives and networking products, to customers mainly in Western Europe and to customers and related parties in the United States and Asia. The Company's customers consisted of value-added resellers, corporate resellers, retailers, direct marketers and distributors. The Company generally did not sell to end-users. The Company monitored the geographic pricing strategies related to such products, currency fluctuations and product availability in an attempt to obtain inventory at favorable prices from other distributors, resellers and wholesalers.

As described in more detail below, during July, 2001 the management approved a plan for the liquidation and eventual sale or dissolution of the Company. Accordingly, we are engaged in an ongoing orderly liquidation of our assets.

European Micro Holdings, Inc. was organized under the laws of the State of Nevada in December 1997 and is the parent of European Micro UK and Nor'Easter. European Micro Holdings, Inc. was formerly the parent of Colchester, American Micro and Engenis. European Micro UK was organized under the laws of the United Kingdom in 1991 to serve as an independent distributor of microcomputer products to customers mainly in Western Europe and to related parties in the United States. Nor'Easter was organized under the laws of the State of Nevada on December 26, 1997 to serve as an independent distributor of microcomputer products in the United States. Colchester was organized under the laws of Singapore in November 1998 to serve as an independent distributor of microcomputer products in Asia. American Micro was organized under the laws of the State of Florida on June 24, 1999 to acquire AMCC and to serve as an independent distributor of microcomputer products in the United States. Premier Pages, Ltd. was formed on January 28, 2000 and later changed their name to Engenis.com Ltd on June 23, 2000. Engenis.com Ltd. was formed under the laws of the United Kingdom to serve as a business-to-business electronic commerce trading company.

European Micro UK was formerly the parent of European Micro GmbH ("European Micro Germany"), Sunbelt and European Micro B.V. ("European Micro Holland") and has a 50% joint venture interest in Big Blue Europe, B.V. ("Big Blue Europe"). European Micro Germany was organized under the laws of Germany in 1993 and operates as a sales office in Düsseldorf, Germany. As of August 2000, the Company closed the sales operations of European Micro Germany. Sunbelt was a company registered in England and Wales, which was established in 1992 and based in Wimbledon, England. Sunbelt operated as a distributor of microcomputer products to dealers, value-added resellers and mass merchants throughout Western Europe. Except for the distribution of its Nova brand products (which was discontinued effective January 2000), Sunbelt's distribution operations were integrated with and into the operations of European Micro UK. European Micro Holland was organized under the laws of Holland in 1995, and operated as a sales office near Amsterdam, Holland. Big Blue Europe was organized under the laws of Holland in January 1997 and was a computer parts distributor with offices located near Amsterdam, Holland, selling primarily to computer maintenance companies. Big Blue Europe has no affiliation with International Business Machines Corporation.

**EUROPEAN MICRO HOLDINGS, INC.**

European Micro Holding's headquarters are located at 450 Fairways Drive, Suite 105, Deerfield Beach, Florida 33441 and its telephone number is (954) 596-0249.

**Plan of Operations**

The following information should be read in conjunction with the condensed consolidated financial statements of the Company and the notes thereto appearing elsewhere in this filing.

Certain statements within this Item and throughout this filing and the documents incorporated herein are "forward-looking statements" as described in the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks and uncertainties and actual results could differ materially from those projected.

**Critical Accounting Estimates**

The Company's only critical accounting estimate pertains to fair value measurement in applying the liquidation basis of accounting. Management's estimate of fair value is based upon the actual amounts collected from the liquidation of the assets and liabilities. Management does not believe these estimates could significantly change in the future.

**Liquidity and Capital Resources**

The Company's primary cash requirements were for operating expenses, funding accounts receivable, the purchase of inventory to support operations, taking greater advantage of available cash discounts offered by certain of the Company's suppliers for early payment, acquisitions and debt service. The Company had historically funded these cash requirements through a combination of loans, internally generated cash flow and the net proceeds of its initial public offering.

*General.* The Company had suffered operating losses in fiscal 2000 and 2001. Ongoing legal costs associated with the litigation related to Big Blue Europe, the costs associated with the Company's electronic commerce strategy, increases in general overhead costs, and increased interest expense due primarily to increased borrowings, coupled with decreasing sales volumes and gross profit margins, negatively impacted operating results. These factors resulted in the noncompliance of the financial covenants of the Company's loan agreements. Due to these operating results and the covenant violations, the lender on the American Micro and Nor'Easter lines of credit and the European Micro Holdings, Inc. term loan demanded repayment of the Nor'Easter line of credit before June 15, 2001 and the American Micro line of credit and the European Micro Holdings term loan by August 15, 2001. As a result, during April 2001, the Company decided to cease operations at Nor'Easter and during June 2001, the Company decided to cease operation at Colchester. The Nor'Easter line of credit was repaid on June 15, 2001. The American Micro line of credit was repaid during May 2001. The European Micro Holdings term loan was repaid on August 21, 2001.

The contingent earn-out payment of the American Micro acquisition relating to two times the after tax earnings for calendar year 2000 of approximately \$1,839,000 was due to the former American Micro shareholders. As a result of financial restrictions imposed by the lender on the American Micro and Nor'Easter lines of credit, on February 20, 2001, the Company delivered two Secured Promissory Notes ("Notes") to the former American Micro shareholders in the original amount of \$823,712 each. The Notes called for monthly principal payments of \$50,000, plus interest at 8% commencing April 1, 2001, subject to financial covenant restrictions. Each Note was due in full within (30) days of the satisfaction of the American Micro and Nor'Easter lines of credit. On July 15, 2001, the Company notified the former American Micro shareholders that it would be unable to meet its obligations under each Note. After the repayment of the American Micro and Nor'Easter lines of credit along with the repayment of the European Micro



Holdings, Inc. term loan, the Company was no longer restricted from performing its obligations to the American Micro shareholders. On August 22, 2001 the former American Micro shareholders demanded full payment of the Notes. On September 1, 2001 the notes payable to the former American Micro shareholders were settled by transfer of all American Micro shares from European Micro Holdings to the former American Micro shareholders.

## **EUROPEAN MICRO HOLDINGS, INC.**

Another factor that negatively impacted the Company's liquidity was the terms of the borrowing arrangements of European Micro UK. European Micro UK's borrowing capacity was subject to termination by the lender at the lender's sole discretion. During August, 2001 the lender on the European Micro UK's line of credit demanded repayment. European Micro UK was able to repay the line of credit with a loan from a significant shareholder.

Hence, with the complete termination of all lines of credit available to the Company, the closures of Nor'easter and Colchester and the loss of American Micro, the Company had no alternative but to proceed with a complete liquidation of all assets. On July 12, 2005, the Company declared a cash dividend in the aggregate amount of \$200,000 on the issued and outstanding shares of Common Stock held by shareholders of record as of August 1, 2005. The dividend was paid on September 1, 2005. As of July 31, 2006, liquidation is almost complete with the only asset being cash in the approximate amount of \$20,000.

### **Item 3. Controls and Procedures**

#### **(a) Evaluation of Disclosure Controls and Procedures:**

The Company's Co-Chief Executive Officers, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Report, have concluded that as of such date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company that is required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and accumulated and communicated to the Company's management, including its Co-Chief Executive Officers, to allow timely decisions regarding required disclosure.

#### **(b) Changes in Internal Controls:**

In connection with the evaluation of the Company's internal controls during the Company's last fiscal quarter, the Company's Co-Chief Executive Officers have determined that there are no changes to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially effect, the Company's internal controls over financial reporting.

**EUROPEAN MICRO HOLDINGS, INC.**

**PART II**

**Item 1. Legal Proceedings.**

On November 12, 1999, Jeffrey and Marie Alnwick (the "Alnwick") and a New York corporation, Big Blue Products, commenced an action individually and derivatively for the Dutch company, Big Blue Europe, against the Company and its founders and officers, John B. Gallagher and Harry D. Shields in the United States District Court, Eastern District of New York, Jeffrey Alnwick and Marie Alnwick v. European Micro Holdings, Inc., Eastern District of New York, Docket No. 99 CV 7380 (the "Alnwick Litigation").

In October 2003, the Company and its affiliated defendants entered into a settlement agreement whereby the plaintiffs discontinued the litigation and released all claims against the defendants. The parties bore their own legal costs and expenses and exchanged mutual releases.

In December 2001, a former shareholder of Sunbelt served a statutory demand upon European Micro UK in the sum of 92,710 pounds sterling. This sum was subsequently reduced to 73,940 pounds sterling. On April 19, 2002 Judge Kershaw QC granted the European Micro UK an injunction preventing the former shareholder from presenting a petition in this sum based upon the statutory demand. On July 31, 2002 the Court of Appeal dismissed European Micro UK's claim and ordered the costs to be paid. In August 2003, the debt plus costs and interest owed the former shareholder of Sunbelt was assigned to Harry Shields, a shareholder of European Micro Holdings, Inc., for the sum of 107,000 pounds sterling.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(a), (b), (c) and (d). 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

15

---

**EUROPEAN MICRO HOLDINGS, INC.****Item 6. Exhibits.**

## (a) Exhibits.

<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
2.01	Agreement for the Acquisition of Sunbelt (UK) Limited by European Micro Plc dated October 26, 1998	Incorporated by reference as Exhibit 2.01 to the Company's Quarterly Report on Form 10-QSB filed on November 13, 1998.
2.02	Merger Agreement re: AMCC dated June 29, 1999	Incorporated by reference as Exhibit 2.02 to the Company's Annual Report on Form 10-KSB filed on September 28, 1999.
2.03	Plan of 1999 Merger re: AMCC dated June 29, 1999	Incorporated by reference as Exhibit 2.03 to the Company's Annual Report on Form 10-KSB filed on September 28, 1999.
2.04	Articles of Merger re: AMCC dated June 29, 1999	Incorporated by reference as Exhibit 2.04 to the Company's Annual Report on Form 10-KSB filed on September 28, 1999.
2.05	Amendment to Merger Agreement re: AMCC dated October 2, 2000	Incorporated by reference as Exhibit 2.05 to the Company's Registration Statement on Form S-1 filed on October 27, 2000.
3.01	Articles of Incorporation	Incorporated by reference as Exhibit No. 3.01 to the Company's Registration Statement on Form S-1 filed on January 16, 1998.
3.02	Certificate of Amendment of Articles of Incorporation	Incorporated by reference as Exhibit 3.02 to the Company's Quarterly Report on Form 10-QSB filed on May 13, 1998.
3.03	Bylaws	Incorporated by reference as Exhibit No. 3.02 to the Company's Registration Statement on Form S-1 filed on January 16, 1998.
4.01	Form of Stock Certificate	Incorporated by reference as Exhibit No. 4.01 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
4.02	1998 Stock Incentive Plan	Incorporated by reference as Exhibit No. 4.02 to the Company's Registration Statement on Form S-1 filed on January 16, 1998.
4.03	1998 Stock Employee Stock Purchase Plan	Incorporated by reference as Exhibit No. 4.03 to the Company's Registration Statement on

Edgar Filing: EUROPEAN MICRO HOLDINGS INC - Form 10QSB

Form S-1 filed on January 16, 1998.

- |       |   |  |
|-------|---|--|
| 4.04  | Form of Lock-up Agreement   | Incorporated by reference as Exhibit No. 4.04 to the Company's Registration Statement on Form S-1/A filed on March 24, 1998. |
| 10.01 | Form of Advice of Borrowing Terms with National Westminster Bank Plc                            | Incorporated by reference as Exhibit No. 10.01 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |
| 10.02 | Invoice Discounting Agreement with Lombard NatWest Discounting Limited, dated November 21, 1996 | Incorporated by reference as Exhibit No. 10.02 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |

**EUROPEAN MICRO HOLDINGS, INC.**

<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
10.03	Commercial Credit Insurance, policy number 60322, with Hermes Kreditversicherungs-AG dated August 1, 1995	Incorporated by reference as Exhibit No. 10.03 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.04	Commercial Credit Insurance, policy number 82692, with Hermes Kreditversicherungs-AG dated August 1, 1995	Incorporated by reference as Exhibit No. 10.04 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.05	Consignment Agreement with European Micro Computer B.V., dated January 1996	Incorporated by reference as Exhibit No. 10.05 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.06	Stockholders' Cross-Purchase Agreement by and between Jeffrey Gerard Alnwick, Marie Alnwick, European Micro Plc and Big Blue Europe, B.V. dated August 21, 1997	Incorporated by reference as Exhibit No. 10.07 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.07	Trusteed Stockholders Cross-Purchase Agreement by and between John B. Gallagher, Harry D. Shields, Thomas H. Minkoff, Trustee of the Gallagher Family Trust, Robert H. True and Stuart S. Southard, Trustees of the Henry Daniel Shields 1997 Irrevocable Educational Trust, European Micro Holdings, Inc. and SunTrust Bank, Nashville, N.A., as Trustee dated January 31, 1998	Incorporated by reference as Exhibit No. 10.08 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.08	Executive Employment Agreement between John B. Gallagher and European Micro Holdings, Inc. effective as of January 1, 1998	Incorporated by reference as Exhibit No. 10.09 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.09	Executive Employment Agreement between Harry D. Shields and European Micro Holdings, Inc. effective as of January 1, 1998	Incorporated by reference as Exhibit No. 10.10 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.10	Contract of Employment Agreement between Laurence Gilbert and European Micro UK dated March 14, 1998	Incorporated by reference as Exhibit No. 10.11 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.

Edgar Filing: EUROPEAN MICRO HOLDINGS INC - Form 10QSB

- |       |   |  |
|-------|---|--|
| 10.11 | Subscription Agreement by and between John B. Gallagher, Harry D. Shields, Thomas H. Minkoff, Trustee of the Gallagher Family Trust, Robert H. True and Stuart S. Southard, Trustees of the Henry Daniel Shields 1997 Irrevocable Educational Trust, European Micro Holdings, Inc. effective as of January 31, 1998 | Incorporated by reference as Exhibit No. 10.13 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |
| 10.12 | Administrative Services Contract by and between European Micro Holdings, Inc. and European Micro Plc effective as of January 1, 1998  | Incorporated by reference as Exhibit No. 10.14 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |
| 10.13 | Escrow Agreement between European Micro Holdings, Inc., Tarpon Scurry Investments, Inc. and The Chase Manhattan dated as of March 24, 1998  | Incorporated by reference as Exhibit No. 10.15 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |
| 10.14 | Form of Indemnification Agreements with officers and directors  | Incorporated by reference as Exhibit No. 10.16 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |
| 10.15 | Form of Transfer Agent Agreement with Chase Mellon Stockholder Services, L.L.C.   | Incorporated by reference as Exhibit No. 10.17 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |

**EUROPEAN MICRO HOLDINGS, INC.**

<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
10.16	Form of Credit Agreement by and between European Micro UK and National Westminster Bank Plc	Incorporated by reference as Exhibit No. 10.17 to the Company's Annual Report on Form 10-KSB filed on September 28, 1998.
10.17	Consulting Contract dated September 10, 1998 by and between European Micro Holdings, Inc. and The Equity Group	Incorporated by reference as Exhibit 10.19 to the Company's Quarterly Report on Form 10-QSB filed on November 13, 1998.
10.18	Employment Agreement dated July 1, 1999 between John B. Gallagher and American Micro	Incorporated by reference as Exhibit 10.21 to the Company's Annual Report on Form 10-KSB filed on September 28, 1999.
10.19	Revolving Loan Agreement dated October 5, 2000 between American Micro and SouthTrust Bank re: Line of Credit to American Micro	Incorporated by reference as Exhibit 10.19 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.20	First Amendment to Loan Agreement dated October 5, 2000 among the Company, American Micro, Nor'Easter and SouthTrust Bank, N.A. re: Term Loan to the Company	Incorporated by reference as Exhibit 10.20 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.21	Revolving Loan Agreement dated October 5, 2000 between Nor'Easter and SouthTrust Bank re: Line of Credit to Nor'Easter	Incorporated by reference as Exhibit 10.21 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.22	Loan Agreement dated October 28, 1999 among the Company, American Micro, Nor'Easter and SouthTrust Bank, N.A. re: Term Loan to the Company	Incorporated by reference as Exhibit 10.23 to the Company's Quarterly Report on Form 10-QSB filed on November 15, 1999.
10.23	Security Agreement dated October 5, 2000 between Nor'Easter and SouthTrust Bank	Incorporated by reference as Exhibit 10.23 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.24	Security Agreement dated October 5, 2000 between American Micro and SouthTrust Bank	Incorporated by reference as Exhibit 10.24 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.25	Line of Credit Note given by Nor'Easter to SouthTrust Bank	Incorporated by reference as Exhibit 10.25 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.26		



Edgar Filing: EUROPEAN MICRO HOLDINGS INC - Form 10QSB

	Line of Credit Note given by American Micro to SouthTrust Bank	Incorporated by reference as Exhibit 10.26 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.27	Unconditional Guaranty given by Harry Shields to SouthTrust Bank Re: American Micro	Incorporated by reference as Exhibit 10.27 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.28	Unconditional Guaranty given by John Gallagher to SouthTrust Bank Re: American Micro	Incorporated by reference as Exhibit 10.28 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.29	Amended and Restated Unlimited Guaranty Agreement dated October 5, 2000 between Harry Shields and SouthTrust Bank	Incorporated by reference as Exhibit 10.29 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.30	Amended and Restated Unlimited Guaranty Agreement dated October 5, 2000 between John Gallagher and SouthTrust Bank	Incorporated by reference as Exhibit 10.30 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.

**EUROPEAN MICRO HOLDINGS, INC.**

<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
10.31	Unconditional Guaranty given by John Gallagher to SouthTrust Bank Re: Nor'Easter	Incorporated by reference as Exhibit 10.31 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.32	Unconditional Guaranty given by Harry Shields to SouthTrust Bank Re: Nor'Easter	Incorporated by reference as Exhibit 10.32 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.33	Specific Agreement for the Provision of Professional Services dated as of March 17, 2000 between the Company and Cap Gemini UK Plc	Incorporated by reference as Exhibit 10.25 to the Company's Quarterly Report on Form 10-QSB filed on May 15, 2000.
10.34	Equity Line of Credit Agreement dated as of August 24, 2000, between the Company and Spinneret Financial System, Ltd.	Incorporated by reference as Exhibit 10.34 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.35	Registration Rights Agreement dated as of August 24, 2000, between the Company and Spinneret Financial System, Ltd.	Incorporated by reference as Exhibit 10.35 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.36	Warrant to Purchase Common Stock dated as of August 24, 2000, given by the Company to Spinneret Financial System, Ltd.	Incorporated by reference as Exhibit 10.36 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.37	Warrant to Purchase Common Stock dated as of August 24, 2000, given by the Company to the May Davis Group, Inc.	Incorporated by reference as Exhibit 10.37 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.38	Registration Rights Agreement dated as of August 24, 2000, between the Company and the May Davis Group, Inc.	Incorporated by reference as Exhibit 10.38 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.39	Placement Agent Agreement dated as of August 24, 2000, between the Company and the May Davis Group, Inc.	Incorporated by reference as Exhibit 10.39 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
14.01	Code of Ethics	Incorporated by reference as Exhibit 14.01 to the Company's Annual Report on Form 10-KSB filed on October 12, 2006.

**EUROPEAN MICRO HOLDINGS, INC.**

**SIGNATURES**

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

Dated: October 16, 2006

**EUROPEAN MICRO HOLDINGS, INC.**

By: */s/ John B. Gallagher*

\_\_\_\_\_  
John B. Gallagher, Co-President

By: */s/ Harry D. Shields*

\_\_\_\_\_  
Harry D. Shields, Co-President