CATHAYONE INC
Form 10QSB
August 21, 2001

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U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2001

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _______ to _______

COMMISSION FILE NUMBER 000-29865

CATHAYONE, INC.

(Exact name of small business issuer as specified in its charter)

Delaware	13-4140336
(State or other jurisdiction of incorporation or organization)	(IRS Employer identification No.)

c/o Fisher & Fisher - One Whitehall Street, 21st Floor - New York, NY 10004

(Address of principal executive offices)

(917) 699-4352

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section13 or 15(d) of the Exchange Act during the past 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 [ ]

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

Number of shares of common stock outstanding as of August 15, 2001: 29,689,158

CATHAYONE, INC. AND SUBSIDIARIES
(A Development Stage Company)

PART I - FINANCIAL INFORMATION (Post Re-Capitalization - See Notes)

ITEM 1. FINANCIAL STATEMENTS

CATHAYONE, INC. & SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS
AT JUNE 30, 2001 (UNAUDITED) AND DECEMBER 31, 2000

ASSETS

	(Unaudited) Jun 30, 2001	Dec 31, 2000
CURRENT ASSETS		
Cash and Cash Equivalents	$ 8	$ 37,187
Loan Receivable, net	-0-	-0-
Prepaid Expenses	-0-	500
TOTAL CURRENT ASSETS	8	37,687
FIXED ASSETS		
Furniture and Office Equipment	5,946	5,946
Accumulated Depreciation	(1,050)	(850)
Net Fixed Assets	4,896	5,096
TOTAL ASSETS	$ 4,904	$ 42,783
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	1,166,767	1,044,701
Due to Related Parties	822,377	776,177
TOTAL CURRENT LIABILITIES	1,989,144	1,820,878
STOCKHOLDERS' DEFICIT		
Common Stock ($.001 par value, 100,000,000 shares authorized: 29,689,158 and 29,489,158 issued and outstanding at June 30, 2000 and December 31, 2000, respectively)	29,689	29,489
Preferred Stock ($.001 par value, 5,000,000 shares authorized: none issued and outstanding)	-0-	-0-
Additional Paid-in-Capital	3,129,149	2,667,349
Deficit Accumulated During Development Stage	(5,143,078)	(4,474,933)
TOTAL STOCKHOLDERS' DEFICIT	(1,984,240)	(1,778,095)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 4,904	$ 42,783

CATHAYONE, INC. & SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001 AND 2000*

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 2001	Six Months Ended June 200
OPERATING EXPENSES:				
General and administrative	$ 8,665	$ 96,829	$ 206,041	$
TOTAL EXPENSES	8,665	96,829	206,041	
OPERATING LOSS	(8,665)	(96,829)	(206,041)	(
OTHER EXPENSE:				
Interest Expense - Note 3.	-0-	-0-	(462,104)	
TOTAL OTHER EXPENSE.	-0-	-0-	(462,104)	
LOSS BEFORE TAXES.	(8,665)	(96,829)	(668,145)	
INCOME TAX (PROVISION) BENEFIT	-0-	-0-	-0-	
NET LOSS	$ (8,665)	$ (96,829)	$ (668,145)	$
Net Loss Per Common Share Basic & Fully Diluted.	$ **	$ (0.01)	$ (0.02)	$
Weighted Average Common Shares Outstanding	29,689,158	8,032,495	29,655,825	6

* Date of reorganization was March 1, 2000
** Less than $.01

CATHAYONE, INC. & SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000*

	June 30, 2001	June 30, 2
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.	$ (668,145)	$ (98
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.	200	
Common stock issued in connection with legal services - Note 3.	462,000	
Common stock issued in reorganization	-0-	29

Write-down of note receivable and prepaid asset	8,000	
Increase in operating liabilities:		
Amounts due related party for services rendered	46,200	
Accounts payable and accrued expenses	122,066	87
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.	(29,679)	18
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in distribution company.	-0-	(16
NET CASH USED IN INVESTING ACTIVITIES	-0-	(16
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of note receivable	(7,500)	
Common stock issuances.	-0-	1
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.	(7,500)	1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(37,179)	4
CASH AND CASH EQUIVALENTS:		
Beginning of period	37,187	
End of period	$ 8	$ 4

* Date of reorganization was March 1, 2000

CATHAYONE, INC. & SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000*

	June 30, 2001	June 30, 2000*
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 104	$ -0-
NON-CASH FINANCING ACTIVITIES:		
Common stock issued in connection with legal services - Note 3	$ 462,000	$ -0-

CATHAYONE, INC. & SUBSIDIARIES
(A Development Stage Company)
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
June 30, 2001

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company's financial position at June 30, 2001, the results of operations for the three and six month periods ended June 30, 2001 and 2000, and cash flows for the six months ended June 30, 2001 and 2000. The results for the period ended June 30, 2001, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2001.

NOTE 2 - EARNINGS (LOSS) PER SHARE

The following represents the calculation of earnings per share:

BASIC & DILUTED*	For the three months ended June 30, 2001	2000	For the six months ended June 30, 2001	2000
Net loss	$ (8,665)	$ (96,829)	$ (668,145)	$(98,129)
Less- preferred stock dividends	--	--	--	--
Net loss	$ (8,665)	$ (96,829)	$ (668,145)	$(98,129)
Weighted average number of common shares	29,689,158	8,032,495	29,655,825	6,120,407
Basic & diluted earnings per share	$ **	$ (.01)	$ (.02)	$ (.02)

*There were no common stock equivalents for either period presented.
** Less than $.01

NOTE 3 - OTHER EXPENSE

During the six months ended June 30, 2001, the Company issued 200,000 shares of its common stock in connection with legal services performed rendered on behalf of the Company. The Company is disputing a significant portion of the approximately $593,000 in accumulated invoices claimed by the law firm. The Company has accrued these invoices in its financial statements pending a settlement with the law firm. The shares were issued pursuant to an agreement whereby the law firm will provide the Company until April 30, 2001 to pay the outstanding invoices. The Company is currently in default of this agreement. The value of the shares was determined using the fair market on the date of issuance, or $2.31 per share, yielding an aggregate market value of $462,000.

NOTE 4 - BANKRUPTCY FILING

On June 15, 2001, The registrant filed a voluntarily Chapter 11 petition in the United States Bankruptcy Court for the Southern District of New York, Case No. 01-41726(cb). The registrant is continuing as a debtor in possession with its prior management, except as noted in Item 6, pursuant to Section 1107 of Title 11 of the United States Code. The Company intends to file a plan of reorganization as provided by Chapter 11 of the United States Bankruptcy Code as soon as practicable.

A meeting of creditors pursuant to section 341 of the United States Bankruptcy Code was held in August 2001.

The Company intends to proceed as expeditiously as possible to resolve outstanding liabilities. The Company presently is in negotiation with prospective merger partners in order to inject new capital into the Company, and therefore maximize value for its constituents.

NOTE 5 - CHANGE IN DIRECTORS

Subsequent to the Special Meeting, Phillip Lee Flaherty announced his resignation as Chairman, Treasurer and Director of CathayOne, Inc., as well as his position as Chief Executive Officer of its subsidiary, Cathay Entertainment Ltd.

Mr Flaherty was replaced by the addition of Charles A Nelson to the Company's Board of Directors. Mr Nelson is a Senior Vice President for New Business Development at Auerbach, Pollack & Richardson.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

With the exception of historical facts stated herein, the matters discussed in this report are "forward looking" statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such "forward looking" statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Readers of this report are cautioned not to put undue reliance on "forward looking" statements that are, by their nature, uncertain as reliable indicators of future performance. The Company disclaims any intent or obligation to publicly update these "forward looking" statements, whether as a result of new information, future events, or otherwise.

DESCRIPTION OF BUSINESS

Business Development History

CathayOne, Inc. (the "Company") is a publicly traded Delaware corporation that was originally incorporated in the State of Utah on August 6, 1984, under the name North American Clothing Company, Inc.

As of June 30, 2000, a majority of the shareholders of the Company authorized a change in the Company's state of incorporation from Utah to Delaware, and the merger of the Company into its wholly owned subsidiary, Cathay Bancorp Inc., CathayOne Inc. being the surviving company. The re-domiciling of the Company to the State of Delaware and the concurrent change of the Company's name to CathayOne Inc. occurred on August 9, 2000.

The Company has vacated their former executive offices and is receiving correspondence at their attorneys office at: c/o Fisher and Fisher - One Whitehall Street, 21st Floor - New York, NY 10004

Business of the Issuer.

Principal Products and Services

The Company's stated business purpose is to manage, take a majority position in, and/or make strategic investments in technological and service companies in the entertainment industry. While located in the United States, the Company has attempted to take advantage of the appetite for foreign content entertainment as well as foreign entertainment in China, the fast-growing broadband multimedia information dissemination opportunities, and Internet content services market in China. Management believes that the best returns for investments in the next decade will be in the People's Republic of China, Hong Kong, Macao and Taiwan (collectively, "Greater China").

The Greater China market is increasingly looking outward in its appetite for foreign content entertainment. The Company believes it can capitalize on the growth in information technology, and will initially focus on developing companies in the entertainment markets, including: music, theater and sporting events.

The Company will attempt to provide its North American expertise in management, new technologies, and financial acumen to companies in China. As the companies mature, the Company will seek to enhance value and liquidity for its shareholders by bringing these companies to the public market, arranging merger and acquisition opportunities, or negotiating private transactions for them. In the alternative, the Company may take an equity position or enter into joint ventures with such companies.

Distribution

The Company is still in the developmental phase and has not, to this date, embarked on any consistent attempts to market or distribute its products in the Greater China region or elsewhere. The Company has performed no formal market studies related to its proposed products and services in the Greater China region. However, the Company has been involved in limited in-house research to determine the types of music and entertainment that might be marketed successfully in the Greater China region.

Competition

The Company will be involved in intense competition with other business entities, many of which will have a competitive edge over the Company by virtue of their stronger financial resources and prior experience in business. There is no assurance that the Company will be successful in obtaining additional suitable business opportunities, or that it will be able to successfully operate its current proposed businesses.

The market for the provision of entertainment products and/or services to individuals and businesses is extremely competitive and highly fragmented. There may be substantial barriers to entry in Mainland China and other foreign countries where the Company seeks to operate, and the Company expects that competition will intensify. The Company believes that the primary competitive factors determining success in this market are a reputation for reliability and service, effective customer support, pricing, creative marketing, and geographic coverage. Other important factors include the timing of introductions of new products and services and industry and general economic trends. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not materially adversely affect its business, financial condition and results of operations.

In order to respond to expected changes in the competitive environment, the Company may, from time to time, make price, service or marketing decisions or make acquisitions that could possibly harm its business. Developing new technologies may also increase competitive pressures on the Company by enabling its competitors to offer a lower cost service.

Dependence on Major Customers

The Company's business plan does not envision dependence on one or a few major customers

Governmental Regulation

The Company is subject to the same federal, state and local laws as other companies providing entertainment and Internet products and services. Today, there are relatively few laws specifically directed toward online products and services. However, due to the increasing popularity and use of the Internet and online services, it is possible that laws and regulations may be adopted with respect to the Internet or online products and services. These laws and regulations could cover issues such as online contracts, user privacy, freedom of expression, pricing, fraud, content and quality of products and services, taxation, advertising, intellectual property rights and information security. Applicability to the Internet of existing laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel, obscenity and personal privacy are uncertain. Several jurisdictions have proposed legislation that would limit the uses of personal user information gathered online or require online services to establish privacy policies.

While located in the United States, the Company has positioned itself to take advantage of foreign content entertainment, the fast-growing broadband multimedia information dissemination opportunities, and Internet content services market in foreign markets. Management intends to build its business in the People's Republic of China, Hong Kong, Macao and Taiwan (collectively, "Greater China"). In all of these countries, businesses face varying degrees of government regulation. Mainland China is heavily regulated. Because the Company is in a start-up mode, it is presently impossible to predict the government regulation, if any, to which the Company may be subject. The use of assets and/or conduct of businesses that the Company may acquire could subject it to environmental, public health and safety, land use, trade, or other governmental regulations and state or local taxation. The Company is presently attempting to ascertain the effects of such government regulation on the prospective business of the Company. Under the present circumstances, the Company is in the development stage. Therefore, it is not feasible to predict with any degree of accuracy the impact of government regulation on the Company's operations. The inability to ascertain the effect of government regulation on the Company's prospective business activity creates a high degree of risk.

Regulatory Overview

It is possible that additional laws and regulations may be adopted with respect to the entertainment industry. Such new laws or regulations may cover issues such as content, pricing, consumer protection, electronic commerce, taxation, copyright infringement and other intellectual property issues. The Company cannot predict the impact, if any, that any future regulatory changes or development may have on its business, financial condition and results of operations. Changes in the regulatory environment that directly or indirectly affect the ability to market products or services, or increase the likelihood or scope of competition, could have a material adverse effect on the Company's business, financial condition and results of operations.

Employees

The two remaining officers continue to manage the Company as a debtor-in-possession. This arrangement will continue into the foreseeable future pursuant to their Chapter 11 plan of reorganization.

RESULTS OF OPERATIONS

The following are the results of operation as of and for the three and six months ended June 30, 2001 and 2000. As indicated in the accompanying financial statements, the Company did not have any material operations for the three months ended March 31, 2000.

Net Income

The Company had a net loss of $8,665 for the three months ended June 30, 2001 versus a net loss of $96,829 for the same period in 2000. The net loss for the first half of the year was primarily attributable to non-cash expense on an accounts payable and accrued consulting fees that were, $462,000 and $120,000, respectively.

Sales

The Company did not have any revenues during the periods presented.

Expenses

Total expenses were $8,665 for the three months ended June 30, 2001 versus $96,829 in during the same period in 2000. Total expenses for the six month period ended June 30, 2000 were $668,145 versus $98,129 in during the same period in 2000.

Total expenses included $462,000 in connection with the payable due the Company's legal counsel. The payment was made with 200,000 shares of the Company's common stock valued at $2.31 per share, the fair market value at the time of issuance. Expenses also included $120,000 in accruals for consultants and officers pursuant to their respective employment agreements. Rent expense was $16,200.

Liquidity and Capital Resources

On June 30, 2001, the Company had cash of $8 and a working capital deficit of $1,989,136. The working capital deficit represents primarily obligations from operations and amounts due related parties for advances and services.

Net cash used in operating activities was $29,679 for the six months ended June 30, 2001 versus net cash provided by operating activities of $18,927 during the same period in 2000. The difference in cash used was primarily attributable to an increase in loss from operations in the amount of $659,480, an increase in accounts payable of $87,798 during 2000 and $462,000 in common stock issuances for services.

Cash used in financing activities totaled $7,500 for the six months ended June 30, 2001 as a result of the incurrence of a loan receivable in the amount of $7,500 to an unrelated party. The Company now believes collection of this is unlikely and, accordingly, has reserved this amount to bad debt. The Company will need to raise funds during the next twelve months for its operations. The Company does not currently have enough liquid assets to remain in operations. In addition, the Company's auditors expressed doubt as to the Company's ability to continue as a going concern. Failure to raise additional capital during the next twelve months will have a material adverse effect on the Company. The Company estimates it will need $3 to 5 million over the next twelve months and $14 million over the long-term in order to develop its business plan.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Capital Lake S.A. v. CathayOne, Inc., Case No. 01-CV-1266 (SAS) filed in the United States District Court for the Southern District of New York. The case involves a claim to entitlement to a $300,000 finder's fee/brokerage commission. The Company denies liability and is defending the action. The case is in its early stages. No discovery has occurred. The Company is unable to express an opinion on the outcome at this time, although the Company does feel it has a meritorious defense to the claim.
As a result of the bankruptcy filing, this case has been stayed.

The Company is aware of a claim being asserted by its former legal counsel for fees in the approximate amount of $593,000, which amount is contested by the Company. The Company is attempting to settle this claim. Collection efforts on this claim has also been stayed

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

None.

b) Reports on Form 8-K

1. A Form 8-K was filed on June 20, 2001 announcing the bankruptcy proceeding filed under Chapter 11 of the United Stated Bankruptcy Code and the resignation of a director of the Company.

SIGNATURES

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

/s/ David Cooperberg, President

Date: August 15, 2001 David Cooberberg, President