

SPECTRE INDUSTRIES INC
Form 10QSB
May 15, 2002

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from [] to []

Commission file number 0-30573

SPECTRE INDUSTRIES INC.

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

Nevada

98-0226032

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

#6 - 260 E. Esplanade, North Vancouver,
British Columbia CANADA V7L 1A3

(Address of principal executive offices)

(604) 984-0400

(Issuer's telephone number)

not applicable

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

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 Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

20,655,860 common shares outstanding as of May 13, 2002

Transitional Small Business Disclosure Format (Check one): Yes No

Part I- FINANCIAL INFORMATION

Item 1. Financial Statements.

The Company's financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

DISCLOSURE

To: The Shareholders of
Spectre Industries Inc.

It is the opinion of management that the interim financial statements for the quarter ended March 31, 2002 include all adjustments necessary in order to ensure that the financial statements are not misleading.

Vancouver, British Columbia
Date: May 15, 2002

/s/ Ian S. Grant
Director, President and CEO of Spectre Industries Inc.

SPECTRE INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2002 and December 31, 2001

SPECTRE INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

ASSETS

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March 31,
2002

December 31,
2001

(Unaudited)

CURRENT ASSETS

| | | |
|----------------------------------|---------------|-----------|
| Cash and cash equivalents | \$210,133 | \$337,336 |
| Accounts receivable, net | 113,215 | 103,953 |
| Other receivable - related party | - | 24,826 |
| Other receivable | 7,411 | 20,320 |
| Prepaid expenses | <u>12,608</u> | = |

| | | |
|----------------------|----------------|----------------|
| Total Current Assets | <u>343,367</u> | <u>486,435</u> |
|----------------------|----------------|----------------|

| | | |
|-------------------|----------------|---------------|
| FIXED ASSETS, NET | <u>105,232</u> | <u>99,507</u> |
|-------------------|----------------|---------------|

OTHER ASSETS

| | | |
|---------------|----------------|----------------|
| Deposits | 12,458 | 12,684 |
| Goodwill, net | <u>290,677</u> | <u>290,677</u> |

| | | |
|--------------------|----------------|----------------|
| Total Other Assets | <u>303,135</u> | <u>303,361</u> |
|--------------------|----------------|----------------|

| | | |
|--------------|------------------|------------------|
| TOTAL ASSETS | <u>\$751,734</u> | <u>\$889,303</u> |
|--------------|------------------|------------------|

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

SPECTRE INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | March 31, 2002 | December 31, 2001 |
|----------------------------------|-------------------|----------------------|
| | (Unaudited) | |
| | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$76,067 | \$53,496 |
| Accounts payable - related party | - | 49,244 |
| Accrued expenses | 14,338 | 17,063 |
| Notes payable - related party | <u>10,161</u> | <u>13,247</u> |
| | | |
| Total Current Liabilities | <u>100,566</u> | <u>133,050</u> |
| | | |
| LONG-TERM DEBT | | |
| Notes payable - related parties | <u>99,667</u> | <u>76,902</u> |
| | | |
| Total Long-Term Debt | <u>99,667</u> | <u>76,902</u> |
| | | |
| Total Liabilities | <u>200,233</u> | <u>209,952</u> |
| | = | <u>2,095</u> |

MINORITY INTERESTS IN CONSOLIDATED
SUBSIDIARIES

STOCKHOLDERS' EQUITY

| | | |
|--|----------------------|----------------------|
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 20,655,860 shares issued and outstanding | 20,655 | 20,655 |
| Additional paid-in capital | 11,893,095 | 11,893,095 |
| Other comprehensive income (loss) | (12,831) | (839) |
| Accumulated deficit | <u>(11,349,418)</u> | <u>(11,235,655)</u> |
| Total Stockholders' Equity | <u>551,501</u> | <u>677,256</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$751,734</u> | <u>\$889,303</u> |

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

SPECTRE INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
(Unaudited)

For the Three Months Ended
March 31,

2002

2001

| | | |
|----------|-----------|-----------|
| REVENUES | \$317,809 | \$289,548 |
|----------|-----------|-----------|

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| | | |
|---|------------------|------------------|
| COST OF SALES | <u>265,606</u> | <u>197,483</u> |
| Gross Margin | <u>52,203</u> | <u>92,065</u> |
| EXPENSES | | |
| General and administrative | <u>99,440</u> | <u>124,348</u> |
| Depreciation and amortization expense | 840 | 24,304 |
| Consulting expense | 66,425 | 64,023 |
| Total Expenses | <u>166,705</u> | <u>212,675</u> |
| Loss from Operations | <u>(114,502)</u> | <u>(120,610)</u> |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 548 | 7,681 |
| Interest expense | <u>(1,676)</u> | <u>(4,678)</u> |
| Total Other Income (Expense) | <u>(1,128)</u> | <u>3,003</u> |
| LOSS BEFORE MINORITY INTEREST IN LOSS OF CONSOLIDATED SUBSIDIARIES | <u>(115,630)</u> | <u>(117,607)</u> |
| Minority interest in loss of consolidated subsidiaries | <u>1,867</u> | = |

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| | | |
|--|--------------------|--------------------|
| INCOME TAX EXPENSE | = | = |
| NET LOSS | <u>(113,763)</u> | <u>(117,607)</u> |
| OTHER COMPREHENSIVE INCOME (LOSS) | | |
| Foreign currency translation adjustment | <u>(11,992)</u> | <u>4,094</u> |
| Total Other Comprehensive Income (Loss) | <u>(11,992)</u> | <u>4,094</u> |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS) | <u>\$(125,755)</u> | <u>\$(113,513)</u> |
| BASIC LOSS PER SHARE | <u>\$(0.01)</u> | <u>\$(0.01)</u> |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | <u>20,655,860</u> | <u>20,655,860</u> |

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

SPECTRE INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)

| | Common Stock | | Additional Paid-in Capital | Other Comprehensive Income (Loss) | Accumulated (Deficit) |
|----------------------------|--------------|----------|----------------------------------|---|--------------------------|
| | Shares | Amount | | | |
| Balance, December 31, 2000 | 20,655,860 | \$20,655 | \$11,893,095 | \$(922) | \$(10,734,717) |

| | | | | | |
|--|-------------------|-----------------|---------------------|-------------------|-----------------------|
| Currency translation adjustment | - | - | - | 83 | - |
| Net loss for the year ended December 31, 2001 | = | = | = | = | <u>(500,938)</u> |
| Balance, December 31, 2001 | 20,655,860 | 20,655 | 11,893,095 | (839) | (11,235,655) |
| Currency translation adjustment (unaudited) | - | - | - | (11,992) | - |
| Net loss for the three months ended March 31, 2002 (unaudited) | = | = | = | = | <u>(113,763)</u> |
| Balance, March 31, 2002 (unaudited) | <u>20,655,860</u> | <u>\$20,655</u> | <u>\$11,893,095</u> | <u>\$(12,831)</u> | <u>\$(11,349,418)</u> |

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

SPECTRE INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(Unaudited)

For the Three Months Ended
March 31,

2002

2001

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|---|------------------|------------------|
| Net loss | \$(115,630) | \$(117,607) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Amortization expense | - | 24,223 |
| Depreciation expense | 840 | 81 |
| Currency translation adjustment | (11,992) | 4,094 |
| Changes in operating assets and liabilities: | | |
| (Increase) in accounts receivable | (9,251) | (15,722) |
| (Increase) decrease in accounts receivable - related party | 25,000 | - |
| (Increase) decrease in other receivables | 12,906 | - |
| (Increase) in prepaid expenses | (12,608) | - |
| Increase (decrease) in interest receivable | - | 2,565 |
| Increase (decrease) in accrued expenses | (2,725) | 4,679 |
| Increase (decrease) in accounts payable | <u>(26,686)</u> | <u>(5,699)</u> |
| Net Cash (Used) by Operating Activities | <u>(140,146)</u> | <u>(103,386)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|---|----------------|---|
| Decrease in minority interest | (228) | - |
| Purchase of fixed assets | <u>(6,508)</u> | = |
| Net Cash (Used) by Investing Activities | <u>(6,736)</u> | = |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|---|-----------------|------------|
| Proceeds from notes payable - related party | 22,765 | - |
| Payments on notes payable - related party | <u>(3,086)</u> | = |
| Net Cash Provided by Financing Activities | <u>\$19,679</u> | <u>\$-</u> |

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

SPECTRE INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)
(Unaudited)

For the Three Months Ended
March 31,

| | 2002 | 2001 |
|--|------------------|------------------|
| NET (DECREASE) IN CASH AND CASH EQUIVALENTS | \$(127,203) | \$(103,386) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | <u>337,336</u> | <u>810,343</u> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u>\$210,133</u> | <u>\$706,957</u> |
| CASH PAID DURING THE PERIOD FOR: | | |
| Interest | \$- | \$- |

| | | |
|--|-----|-----|
| Income taxes | \$- | \$- |
| SCHEDULE OF NON-CASH FINANCING ACTIVITIES: | \$- | \$- |

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

SPECTRE INDUSTRIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
 March 31, 2002 and December 31, 2001

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim condensed consolidated financial statements include normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto included in its December 31, 2001 Annual Report on Form 10-KSB. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

NOTE 2 - SEGMENT REPORTING

The Company's reportable segments are business units that offer different products and services. The company has two reportable business segments: Automotive parts sales and photographic services performed in photo kiosks.

All significant intersegment transactions have been eliminated in the consolidated financial statements.

Financial information as of and for the year ended December 31, 2001 with respect to the reportable segments is as follows:

| | Automotive Parts Sales | Photographic Services | Total |
|-------------------|---------------------------|--------------------------|-----------|
| External revenues | \$297,444 | \$20,365 | \$317,809 |

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| | | | |
|--------------------------------|------------|------------|-------------|
| Cost of goods sold | 255,177 | 10,429 | 265,606 |
| Interest income | 548 | - | 548 |
| Interest expense | 1,676 | - | 1,676 |
| Segment loss before tax effect | \$(91,814) | \$(23,816) | \$(115,630) |

The following schedules are presented to reconcile amounts in the forgoing segment information to the amounts reported in the Company's consolidated financial statements.

SPECTRE INDUSTRIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2002 and December 31, 2001

NOTE 2 - SEGMENT REPORTING (Continued)

Profit

| | |
|-----------------------------------|--------------------|
| Total loss of reportable segments | \$(113,763) |
| Minority interest in loss | <u>(1,867)</u> |
| | <u>\$(115,630)</u> |

The following table presents information about the Company's revenue (attributed to countries bases on the location of the customer) and long-lived assets by geographic area:

Geographic Information

| | Revenues | Long-Lived Assets |
|---------------|------------------|----------------------|
| United States | \$47,478 | \$- |
| Canada | 249,966 | 940 |
| Germany | <u>20,365</u> | <u>108,060</u> |
| | <u>\$317,809</u> | <u>\$109,000</u> |

Item 2. Management's Discussion and Analysis or Plan of Operation.

Forward Looking Statements

This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles. In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars. All references to CDN\$ refer to Canadian dollars.

As used in this annual report, the terms "we", "us", "our" and "Spectre Industries" mean Spectre Industries, Inc. and our wholly-owned subsidiary, unless otherwise indicated.

The following discussion should be read in conjunction with our unaudited consolidated financial statements and notes to our unaudited consolidated financial statements for the period ended March 31, 2002 (see Item 1 "Financial Statements").

General

Spectre Industries, Inc. was incorporated in the State of Nevada on May 13, 1986 under the name Abercrombie, Inc. On June 6, 1995, our name was changed to Spectre Motor Cars, Inc. We changed our name to Spectre Industries, Inc. on November 6, 1997, and through our wholly owned subsidiaries, Spectre Supersports Ltd. and Spectre Cars UK Ltd., we sought to develop sports cars in the United Kingdom. In June of 1997, these subsidiaries went into voluntary receivership, and on August 8, 1997, a company controlled by an unrelated third party acquired all of their assets.

Subsequent to the liquidation of our subsidiaries, as discussed above, we ceased our efforts in developing sports cars. In December 1997, we retained the services of I.S. Grant & Company, Ltd. ("Grant & Co.") to assist in exploring additional opportunities in the automotive after-market.

Mr. Grant assisted us with the acquisition of our 100% owned subsidiary, Grant Automotive Group, Inc., an Ontario corporation ("GAG"), from Grant Brothers Sales, Ltd. ("GBS"). Mr. Grant was an officer, director and shareholder of both GBS and our company at the time. As part of a Management Services Agreement (the "Management Services Agreement") entered into concurrently with that transaction, GBS received an aggregate of 450,000 shares. Through his ownership interest in GBS, Mr. Grant holds a beneficial interest in those shares.

We acquired all of the shares of GAG pursuant to a Share Purchase Agreement, dated January 1, 2000, from GBS, a Canadian manufacturers' representative of automotive parts. The business of GAG consisted of GBS's traditional automotive division and heavy-duty division, consisting of the representation of approximately 53 manufacturers of parts used in the automotive after-market industry. As part of this transaction, we entered into the Management

Services Agreement with GBS to provide managerial, sales and office support services to GAG for a term of five years. The Management Services Agreement provides GBS with a strong incentive to operate GAG efficiently and successfully. Further, it was clear that raising additional capital for our company would be difficult until GAG had been overseen and operated by our company for a substantial period of time.

Through GAG, we operate as a manufacturers' representative for manufacturers of products for the automotive parts after-market industry in the wholesale market within Canada. GAG acts as sales agent to wholesale distributors of after-market automotive parts. It does not sell to mass retail merchandisers that sell many products both related and unrelated to the automotive industry. GAG has expanded its representation business to include software developers who have created products directly applicable for use in this market. In general, GAG is compensated by manufacturers for its services on a commission basis.

In order to operate GAG, we compensate GBS with a commission pursuant to the Management Services Agreement. To operate our non-GAG activities, we entered into an agreement with Grant & Co. whereby the services of Mr. Ian S. Grant are provided to us. These activities include the evaluation of acquisitions, ongoing corporate financing and reporting requirements, supervision of GBS's management of GAG, as well as our other activities. Mr. Grant is paid solely by Grant & Co. for services rendered to us.

In an effort to diversify our business operations on September 4, 2001, we completed the acquisition a 54% interest in Auto Photo Kiosk GmbH ("APK"), a German corporation, pursuant to a partnership agreement dated January 24, 2002 (the "APK Agreement"), between our company and the three other owners of APK (the "APK Stakeholders"), Joachim Zweifel, Gerhild Voigtlaender, both businesspersons resident in Germany, and Vending Concept GmbH, a private corporation located in Switzerland. Under the terms of the APK Agreement, we obtained our interest in APK in consideration for the payment of 27,000 Euros, or approximately \$23,000.

APK was incorporated on September 4, 2001 for the purposes of providing for the purchase, sale, distribution and rental or operation of automated photo kiosks and related products in major public access areas, primarily in Germany.

We have also agreed to loan a total of up to 264,000 Euros, or approximately \$232,000, to APK, subject to pro-rata contributions from the APK Stakeholders, which is to bear interest at 1% per annum above prime at the European Central Bank, redeemable on six months notice no earlier than December 31, 2003.

Three-Month Period Ended March 31, 2002 Compared to the Three-Month Period ended March 31, 2001.

Results of Operations

We incurred a net loss of \$113,363 for the three-month period ended March 31, 2002 compared to a net loss of \$117,607 for the comparative period in 2001. The decrease in net losses was primarily due to an increase in revenues and a reduction in general and administrative expenses. Comparison of the three-month period ended March 31, 2002 and the three-month period ended March 31, 2001 is provided below.

Revenues

We recognized a slight increase in revenues to \$317,809 for the three-month period ended March 31, 2002, the majority of which were generated through commissions earned by our principal operating subsidiary, Grant Automotive Group, Inc., on the sales of its principal automotive and truck products to wholesale buyers. During the comparable period in 2001, we recognized revenues of \$289,548. However, due to an increase in the costs of sale, our gross margins decreased from \$92,065 for period ended March 31, 2001 to \$52,203 for the period ended March 20, 2002.

General, Administration and Professional Fees

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We experienced a decrease in general and administration expenses in the three-month period ended March 31, 2002 to \$99,440, as compared to general and administration expenses for the same period in 2001 of \$124,348. This decrease was primarily due to a decrease in professional fees during the three months ended March 31, 2002. Professional fees decreased in the three-month period ended March 31, 2002 due to a decrease in legal fees and fees payable to our independent auditor, as a result of having cleared our Registration Statement that was initially filed with the Securities and Exchange Commission on May 8, 2000.

Summary

Presently, we have no significant source of revenue. We have incurred operating losses since inception. The continuation of our business is dependent upon the continuing financial support of our creditors and stockholders, obtaining further financing, and, finally, achieving a profitable level of operations. There are, however, no assurances that we will be able to generate further funds required for our continued operations.

Liquidity and Capital Resources

Our principal capital requirements to date have been used to fund ongoing operations, and recently for the acquisition of our interest in APK. During the three month period ended March 31, 2002, we incurred a loss of \$113,763. During the same period in 2001, we incurred a loss of \$117,607.

Net cash used in operating activities for the three-month period ended March 31, 2002 was \$140,146 compared to net cash used in operating activities of \$103,146 during the comparative period in 2001. The increase in cash used in operating activities is substantially attributed to a currency translation adjustment of \$11,992. In addition, there was an increase of prepaid expenses of \$12,608 and a decrease in accounts payable of \$26,686 at March 31, 2002 from the year end, which also increased cash used for operating activities during the period. Cash used in operating activities was partially off set by decreases in receivables of \$37,906 at March 31, 2002 from the year end.

Lack of operating cash flow to date requires that we carefully manage funds generated from financing activities. During the three-month period ended March 31, 2002, we did not engage in any material financing or investing activities, although during the period we received \$22,765 from a note payable due from a related party. Accounts payable and accrued liabilities are watched particularly closely.

Net cash used in investing activities during the three-month period ended March 31, 2002 was \$6,736, compared to none for the same period in 2001. The net decrease in cash during the three-month period ended March 31, 2002 was \$127,203, leaving us with a cash balance at March 31, 2002 of \$210,133.

We anticipate that we will be able to raise sufficient short-term capital in order to finance our operations and working capital requirements through the end of the fiscal year. Before the end of the current fiscal year, we also anticipate an increase in revenues that, in addition to any financing raised, will fund operations and working capital requirements.

We do not believe that we currently are, or in the foreseeable future will be, able to receive any funds through a public offering of our securities. Accordingly, if additional capital is required, we will continue to seek financing from investors in private placements in the United States and Europe in order to finance the growth of our business. Based upon our current plan of operation, we estimate that we will require \$300,000 in further financing resources together with funds generated by GAG and APK, to fund our current working capital requirements and other capital expenditure obligations through December 31, 2002.

Our capital resources have been limited. The income which we have generated from business operations has not been sufficient to cover our operational expenses, and as a result, in the past, we have also relied on the sale of equity and debt shares for the cash required for our operations. We only have one current commitment presently contemplated for a material capital expenditure that is over normal operating requirements, and that is for the funds that we are to

provide to APK pursuant to our obligation to advance APK a loan of up to 264,000 Euros, or approximately \$232,000.

As noted, our working capital or cash flows are not sufficient to fund ongoing operations and commitments. Our ability to settle our liabilities as they come due, and to fund our commitments and ongoing operations, is dependant upon our ability to generate increased revenues and obtain additional financing by way of debt, equity or other means. There can be no assurances that we can obtain such additional financing on terms reasonably acceptable to us or at all. The lack of capital may force us to curtail our operating activities and potential investment activities.

Personnel

As of March 31, 2002, we do not have any employees other than our directors and officers. Our company is managed by Ian S. Grant under a consulting agreement with Grant & Co., dated June 1, 1998. Over the twelve months ending March 31, 2003, we do not expect to hire any employees.

Factors That May Affect Our Future Results

An investment in our common stock involves a number of very significant risks. You should carefully consider the following risks and uncertainties in addition to other information in this quarterly report in evaluating our company and our business before purchasing shares of common stock. It is possible that our business, operating results and financial condition could be seriously harmed due to any of the following risks. The trading price of shares of our common stock could decline due to any of these risks, and you could lose all or part of your investment.

RISK FACTORS

"Penny Stock" Rules

The U.S. Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our company's securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors." The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require that a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of, our common stock.

Limited Operating History In Providing Services to the Automotive After-market Industry

On January 1, 1999 we commenced the operation of our current business. As such, we have a limited operating history on which to base an evaluation of our business and prospects. Our prospects must be considered in light of the

risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development. Some of these risks and uncertainties relate to our ability to:

- attract and maintain a large base of manufacturers and customers;
- establish and maintain strategic alliances with manufacturers and service providers in the automotive after-market industry;
- establish and maintain relationships with the such parties;
- respond effectively to competitive and technological developments;
- build an infrastructure to support our business;
- effectively develop new and maintain existing relationships with manufacturers and service providers in the automotive after-market industry; and
- attract, retain and motivate qualified personnel.

We cannot be sure that we will be successful in addressing these risks and uncertainties and our failure to do so may impair our ability to capture market share and generate revenues. In addition, our operating results are dependent to a large degree upon factors outside of our control, including the general strength and viability of the automotive after-market industry.

Many of Our Competitors Have Greater Resources And Better Name Recognition

Many of our competitors are substantially larger than us and have significantly greater financial resources and marketing capabilities than we have, together with better name recognition. It is possible that new competitors may emerge and acquire significant market share in the automotive after-market. Competitors with superior resources and capabilities may be better able to utilize such advantages to market their services better, faster and/or cheaper than we can.

Increased competition from future or existing competitors in the automotive after-market will likely impair our ability to establish and maintain market share. If we are unsuccessful in generating and maintaining a sufficient base of manufacturers and service providers in the in the automotive after-market who utilize our services, it is unlikely that we will be able to generate sufficient revenues to sustain operations.

We Lack Working Capital

We have not generated sufficient revenues to cover our operational expenses and do not anticipate doing so in the near future. If our business does not meet our intended income goals, we will require additional financing. If we are not successful in obtaining additional financing by the end of 2002, we may be required to reduce operations to a sustainable level until any such financing is obtained, or sufficient revenues are generated to sustain operations. There can be no assurances that additional equity or other financing will be available at all or available on terms acceptable to us.

Our ability to continue in business in part depends upon our continued ability to obtain financing. There can be no assurance that any such financing would be available upon terms and conditions acceptable to us, if at all. The inability to obtain additional financing in a sufficient amount when needed and upon acceptable terms and conditions could have a materially adverse effect upon us. Inadequate funding could impair our ability to compete in the marketplace and could result in our dissolution.

History Of Losses

Lack of Revenues

We currently do not generate sufficient revenues from our business operations to cover operating expenses, and our ability to generate sufficient revenues in the future is uncertain. Our short and long-term prospects depend upon establishing and maintaining an adequate client base in the automotive after-market industry. We anticipate that a significant portion of our revenues will continue to be derived from such client base. Any adverse developments in the automotive after-market industry could have an adverse affect on our ability to generate revenues. We may be incapable of covering our ongoing operational expenses unless we obtain additional financing by way of debt, equity or other means, and commence generating significant revenues. Even if we become profitable, we may not sustain or increase our profits on a quarterly or annual basis in the future.

We have not achieved profitability and expect to continue to incur net losses for the foreseeable future and we cannot give assurances that we will achieve profitability. We have incurred net losses of \$113,763 for the three month period ended March 31, 2002.

Dependence Upon Relationships With Key Manufacturers

Our future success depends upon our ability represent manufacturers and service providers in the automotive after-market industry.

We have a limited number of relationships with manufacturers and service providers in the automotive after-market., and rely significantly upon the personal contacts of our President, Ian S. Grant, to maintain our existing relationships and to develop new relationships. Our success depends significantly on our ability to maintain existing relationships with these manufacturers and service providers and to build new relationships with other automotive manufacturers and service providers. We cannot ensure that we will be able to maintain such relationships or continue to obtain agreements to represent other parties in the industry.

Further, our relationships with manufacturers and service providers in the automotive after-market are nonexclusive, and many of our competitors offer, or could offer, services that are similar to or the same as the services that we offer. Such direct competition could adversely affect our business. Any inability to effectively manage our relationships with manufacturers and service providers in the automotive after-market may result in decreased potential for revenues, which could adversely affect our business.

Uncertain Ability To Achieve, Manage Or Sustain Growth

It may be necessary for us to grow in order to remain competitive. Our ability to grow is dependent upon a number of factors including, but not limited to, our ability to hire, train and assimilate management and other employees, the adequacy of our financial resources, our ability to identify and efficiently provide new services as may be demanded by our customers in the future and our ability to adapt our services to accommodate necessary operational changes. In addition, there can be no assurance that we will be able to achieve such expansion or that we will be able to manage expanded operations successfully. Failure to manage growth effectively and efficiently could have an adverse effect on our ability to acquire sufficient market share and remain competitive.

Dependence Upon Ian S. Grant

Our key personnel is limited at present to Ian S. Grant, our President. The loss of the services of Mr. Grant and other employees, for any reason, may have a materially adverse effect on our prospects. Although we believe that the loss of any of our management or other key employees (apart from Mr. Grant) will not have a material adverse impact upon us, there can be no assurance in this regard, nor any assurance that we will be able to find suitable replacements. In

addition, competition for personnel is intense, making it difficult to find highly skilled employees with appropriate qualifications. Furthermore, we do not maintain "key man" life insurance on the lives of any of our management or other of our key employees. To the extent that the services of any key employee of ours becomes unavailable, we will be required to retain other qualified persons. However, there can be no assurance that we will be able to employ qualified persons upon acceptable terms.

Volatility Of Stock Price

The trading price of our common stock has been and may continue to be subject to wide fluctuations. Trading prices of our common stock may fluctuate in response to a number of factors, many of which are beyond our control. In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. The trading prices of many companies' stocks have recently been at historical highs and reflected price earnings ratios substantially above historical levels. There can be no assurance that such trading prices and price earnings ratios will be achieved again. These broad market and industry factors may adversely affect the market price of the common stock, regardless of our operating performance.

In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted. Such litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources.

Effect Of Shares Eligible For Public Sale

As of May 13, 2002, there were 20,655,860 common shares issued and outstanding. As of May 13, 2002, there were no shares held in escrow. Furthermore, as at May 13, 2002, 200,000 shares were issuable upon the exercise of options, and no shares were issuable upon the exercise of warrants. Sales of a large number of shares could have an adverse effect on the market price of our common stock. Any sales by these stockholders could adversely affect the trading price of our common stock.

Insider Control Of Common Stock

As of May 13, 2002, directors and executive officers beneficially owned approximately 6% of our outstanding common stock. As a result, these stockholders, if they act as a group, will have a significant influence on all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such control may have the effect of delaying or preventing a change in control.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

We know of no material, active or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceedings or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

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.

Reports of Form 8-K

On February 12, 2002, we filed a Form 8-K Current Report, in connection with the acquisition of our interest in APK. An amended Current Report on Form 8-K/A was filed on April 22, 2002, which included pro-forma financial statements accounting for the acquisition of our interest in APK.

Financial Statements Filed as a Part of the Quarterly Report

Our consolidated financial statements include:

Balance Sheets

Statements of Operations

Statements of Stockholders' Equity

Statements of Cash Flows

Exhibits Required by Item 601 of Regulation S-B

Index of Exhibits

| <u>Description</u> | <u>Exhibit Number</u> |
|--|---------------------------|
| Articles of Incorporation (the following exhibits are incorporated by reference from our Registration Statement on Form 10-SB, filed May 8, 2000, and subsequent amendments thereto on Form 10-SB/A) | (3) |
| Articles of Incorporation | 3.1 |
| Amendment to Articles of Incorporation | 3.2 |
| Amendment to Articles of Incorporation | 3.3 |
| Bylaws | 3.4 |

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|---|------|
| Instruments defining the Rights of Holders (the following exhibits are incorporated by reference from our Registration Statement on Form 10-SB, filed May 8, 2000, and subsequent amendments thereto on Form 10-SB/A) | (4) |
| Form of Option agreement for Director Schulz Von Siemens | 4.6 |
| Material Contracts | (10) |
| Partnership Agreement, effective date January 24, 2002 between Spectre Industries Inc., Joachim Zweifel, Gerhild Voiglaender, and Vending Concept GmbH (incorporated by reference from our Form 8-K filed on February 12, 2002) | 10.1 |
| Loan Agreement, effective date January 24, 2002 between Spectre Industries Inc. and Auto Photo Kiosk GmbH. (incorporated by reference from our Form 8-K filed on February 12, 2002). | 10.2 |

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.

SPECTRE INDUSTRIES INC.

By: /s/ Ian S. Grant
Ian S. Grant, President and CEO/Director
Date: May 15, 2002