CATHAYONE INC
Form 10QSB
February 19, 2002

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 September 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 MRB Investor Relations - 400 Madison Avenue, 16th Floor - New York, NY 10017
(Address of principal executive offices)

(212) 230-1727
(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 February 5, 2002: 29,689,158

CATHAYONE, INC. AND SUBSIDIARIES
(A Debtor in Possession)

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

PART II - OTHER INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CATHAYONE, INC. & SUBSIDIARIES
(A DEBTOR IN POSSESSION)
CONSOLIDATED BALANCE SHEETS
AT SEPTEMBER 30, 2001 (UNAUDITED) AND DECEMBER 31, 2000

ASSETS	(Unaudited) Sept. 30, 2001	Dec. 31, 200
CURRENT ASSETS		
Cash and Cash Equivalents	$ 8	$ 37,1
Loan Receivable, net	-0-	
Prepaid Expenses	-0-	5
TOTAL CURRENT ASSETS	8	37,6
FIXED ASSETS		
Furniture and Office Equipment	-0-	5,9
Accumulated Depreciation	-0-	(8
Net Fixed Assets	-0-	5,0
TOTAL ASSETS	$ 8	$ 42,7
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	1,167,017	1,044,7
Due to Related Parties	859,877	776,1
TOTAL CURRENT LIABILITIES	2,026,894	1,820,8
COMMITMENTS AND CONTINGENCIES - NOTE 4		
STOCKHOLDERS' DEFICIT		
Common Stock ($.001 par value, 100,000,000 shares authorized: 29,689,158 and 29,489,158 issued and outstanding at September 30, 2001 and December 31, 2000, respectively)	29,689	29,4
Preferred Stock ($.001 par value, 5,000,000 shares authorized: none issued and outstanding)	-0-	-
Additional Paid-in-Capital	3,129,149	2,667,3
Deficit Accumulated During Development Stage	(5,185,724)	(4,474,9
TOTAL STOCKHOLDERS' DEFICIT	(2,026,886)	(1,778,0
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 8	$ 42,7

CATHAYONE, INC. & SUBSIDIARIES
(A DEBTOR IN POSSESSION)
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000*

Three Months Ended Sept. 30, Nine

		2001		2000		2
OPERATING EXPENSES:						
General and administrative.	$	42,646	$	572,743	$	248,
TOTAL EXPENSES.		42,646		572,743		248,
OPERATING LOSS.		(42,646)		(572,743)		(248,
OTHER EXPENSE:						
Interest Expense - Note 3 .		-0-		-0-		(462,
TOTAL OTHER EXPENSE . . .		-0-		-0-		(462,
LOSS BEFORE TAXES		(42,646)		(572,743)		(710,
INCOME TAX (PROVISION) BENEFIT		-0-		-0-		
NET LOSS.	$	(42,646)	$	(572,743)	$	(710,
Net Loss Per Common Share Basic & Fully Diluted . . .	$	**	$	(0.02)	$	(0
Weighted Average Common Shares Outstanding.		29,689,158		29,258,319		29,666,

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

CATHAYONE, INC. & SUBSIDIARIES
(A DEBTOR IN POSSESSION)
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000*

		Sept. 30, 2001		Sept. 30,
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss.	$	(710,791)	$	(6
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				

Depreciation and writedown.	5,096	
Common stock issued in connection with legal services - Note 3.	462,000	
Common stock issued in reorganization	-0-	
Write-down of note receivable and prepaid asset	8,000	
Increase in operating assets:		
Prepaid expenses.	-0-	
Increase in operating liabilities:		
Amounts due related party for services rendered	83,700	
Accounts payable and accrued expenses	122,316	1,1
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.	(29,679)	4
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for furniture and equipment.	-0-	(
Intangible assets	-0-	(
Investment in foreign operations.	-0-	(3
NET CASH USED IN INVESTING ACTIVITIES	-0-	(4
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of note receivable	(7,500)	
Common stock issuances.	-0-	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.	(7,500)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(37,179)	
CASH AND CASH EQUIVALENTS:		
Beginning of period	37,187	
End of period	$ 8	$

* Date of reorganization was March 1, 2000

CATHAYONE, INC. & SUBSIDIARIES
(A DEBTOR IN POSSESSION)
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000*

	Sept. 30, 2001	Sept. 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-

Common stock issued relating to reverse merger .	$ -0-	$ 24,658
Common stock issued for acquisition of CMD Capital Limited.	$ -0-	$ 2,800
Common stock issued for equity investments in foreign operations.	$ -0-	$ 2,000,000

CATHAYONE, INC. & SUBSIDIARIES
(A Debtor in Possession)
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
September 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 September 30, 2001, the results of operations for the three and nine month periods ended September 30, 2001 and 2000, and cash flows for the nine months ended September 30, 2001 and 2000. The results for the period ended September 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 September 30, 2001	2000	For the nine months ended September 30, 2001	2000
Net loss	$ (42,646)	$ (572,743)	$(710,791)	$ (670,872)
Less- preferred stock dividends	--	--	--	--
Net loss	$ (42,646)	$ (572,743)	$(710,791)	$ (670,872)
Weighted average number of common shares	29,689,158	29,258,319	29,666,936	16,819,189
Basic & diluted earnings per share	$ **	$ (.02)	$ (.02)	$ (.05)

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

NOTE 3 - OTHER EXPENSE

During the nine months ended September 30, 2001, the Company issued 200,000 shares of its common stock in connection with legal services 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, as noted in Item 2, 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 - DUE TO RELATED PARTIES

The total amount presented as due to related parties at September 30, 2001 is primarily the net outstanding balances of advances and cash payments from CathayOnline, Inc. and its subsidiaries, a beneficial shareholder of the Company which also has a director in common. The amount is comprised of $475,070 in cash advances and another $347,307 due for services rendered as described below.

The balances are unsecured and carry an interest rate of 8%; however, all interest through September 30, 2000 has been waived by CathayOnline, Inc.

Certain accounting, administrative support, and Internet development services are provided by CathayOnline, Inc. and subsidiaries. Charges for these services are based on estimates of payroll and benefits of involved staff and other department costs that were approximately $347,307 for the period from March 1, 2000 (date of reorganization) through September 30, 2001 and are included under 'Due to Related Parties' in the accompanying consolidated balance sheet.

The remaining balance of $37,500 is payable to members of the Company's management for third quarter 2001 administrative services rendered during the Chapter 11 reorganization case at a rate of $12,500 per month.

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 its former executive offices and is receiving correspondence at : c/o MRB Investor Relations, Attn: Charles A. Nelson - 400 Madison Avenue, 16th Floor - New York, NY 10017

Business of the Issuer.

- Overview of Operations as Debtor in Possession

The Company's stated business purpose was to manage, take a majority position in, and/or make strategic investments in, technological and service companies in the entertainment, Internet and e-commerce industries. While located in the United States, the Company sought to position itself to take advantage of the appetite for foreign content entertainment, the fast-growing broadband multimedia information dissemination opportunities and the Internet content services market in China. The Company does not anticipate that these business purposes will continue to be pursued. Please see comments below under "Subsequent Events". The Company is currently seeking merger prospects and other strategic relationships that will attempt to add value to the existing shareholders. There can be no assurance that the Company will be successful in achieving this goal. In addition, there can be no assurance that the current shareholders of the Company will see their value per share increase if such reorganization occurs.

- Subsequent Events

Since filing its bankruptcy petition, the Company has been attempting to locate a funding source, investor or operating company so that it could emerge from its bankruptcy as a publicly-traded corporate shell or as a publicly-traded operating entity. In December of 2001, management began negotiating the terms of a business combination with the principal officer of a private company in the transportation business ("Tranco").

On January 28, 2002, the Debtor and Tranco entered into a non-binding letter of intent relating to the reverse merger of a subsidiary of the Debtor (that will be formed as a merger vehicle) with and into Tranco, with Tranco remaining as the surviving company. The Company intends to file a Plan of Reorganization in February 2002.

- 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.

Market for the Company's Common Stock

The Company's common stock had been de-listed from the Over-the-Counter Bulletin Board (OTCBB) during the fourth quarter of 2001 and does not currently have an active trading market. The Company will attempt to locate a market maker that may have an interest in making a market in the Company's common stock. However, there can be no assurance that a market for the common stock will be established or maintained.

RESULTS OF OPERATIONS

The following are the results of operation as of and for the three and nine months ended September 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 $42,646 for the three months ended September 30, 2001 versus a net loss of $572,743 for the same period in 2000. The net loss for the third quarter of the year was primarily attributable to administrative and court costs for its bankruptcy proceedings and the write-off of fixed assets no longer held by the Company. There were no other material operations within the

Company during the third quarter.

Sales

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

Expenses

Total expenses were $42,646 for the three months ended September 30, 2001 versus $572,743 during the same period in 2000. Total expenses for the nine month period ended September 30, 2001 were $710,791 versus $670,872 during the same period in 2000. Expenses for both periods were primarily incurred due to the Company's development activities in Greater China.

Total expenses for the nine months ended September 30, 2001 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 September 30, 2001, the Company had cash of $8 and a working capital deficit of $2,026,886. 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 nine months ended September 30, 2001 versus net cash provided by operating activities of $461,272 during the same period in 2000. The difference in cash used was primarily attributable to an increase in accounts payable of $1,106,814 during 2000 and $462,000 in common stock issuances for services during 2001.

Net cash used in investing activities for 2000 included expenditures for office furniture and equipment, intangible assets and the Company's investment in foreign operations, which were $18,131, $63,770 and $375,259. The Company did not have any cash flows form investing activities during 2001.

Cash used in financing activities totaled $7,500 for the nine months ended September 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 reorganize itself as part of its Chapter 11 case in order to continue operating. 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 absent Chapter 11 reorganization. Failure to raise additional capital during the next twelve months will have a material adverse effect on the Company.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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 in February 2002 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.

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 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

Since filing its bankruptcy petition, the Company has been attempting to locate a funding source, investor or operating company so that it could emerge from its bankruptcy as a publicly-traded corporate shell or as a publicly-traded operating entity. In December of 2001, management began negotiating the terms of a business combination with the principal officer of a private company in the transportation business ("Tranco").

On January 28, 2002, the Debtor and Tranco entered into a non-binding letter of intent relating to the reverse merger of a subsidiary of the Debtor (that will be formed as a merger vehicle) with and into Tranco, with Tranco remaining as the surviving company. The Company intends to file a Plan of Reorganization in

February 2002.

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/ Peter Lau, Chief Executive Officer

Date: February 5, 2001 Peter Lau, Chief Executive Officer

/s/ David Cooperberg, President

David Cooperberg, President

/s/ Charles A. Nelson, Director

Charles A. Nelson, Director