

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 SEPTEMBER 30, 2002

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:

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.

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European Micro Holdings, Inc. and Subsidiaries

Condensed Consolidated Statement of Net Assets in liquidation as of September 30, 2002

(Liquidation Basis)

(In thousands)

(Unaudited)

	September 30, 2002
ASSETS	
ASSETS:	
Cash	\$ 75
Income taxes receivable	1,598
TOTAL ASSETS	\$ 1,673
LIABILITIES	
LIABILITIES:	
Accounts payable	\$ 65
Accrued expenses and other liabilities	631
Due to related parties	326
TOTAL LIABILITIES	\$ 1,022
COMMITMENT AND CONTINGENCIES	
NET ASSETS IN LIQUIDATION (available to holders of Common Stock)	\$ 651

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 Months Ended
September 30, 2002 and 2001

(Liquidation Basis)

(In thousands)

(Unaudited)

	Three Months ended September 30,	
	2002	2001
SALES:		
Net sales	\$ -	\$ 9,636
COST OF GOODS SOLD:		
Cost of goods sold	-	(8,398)
GROSS PROFIT	-	1,238
OPERATING EXPENSE:		
Selling, general and administrative expenses	(12)	(1,376)
LOSS FROM OPERATIONS	(12)	(138)
OTHER INCOME (EXPENSE)		
Interest expense	-	(158)
Forgiveness of debt	-	686
Loss on rescission of American Micro purchase	-	(1,345)
TOTAL OTHER INCOME (EXPENSE)	-	(817)
LOSS BEFORE INCOME TAXES	(12)	(955)
Income tax (expense)	-	(47)
NET LOSS	(12)	(1,002)
NET ASSETS BEGINNING OF PERIOD	649	2,067
EFFECT OF FOREIGN EXCHANGE RATES	14	36
NET ASSETS IN LIQUIDATION	\$ 651	\$ 1,101

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)

	Three Months Ended September 30,	
	2002	2001
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ -	\$ 158
Cash paid for taxes	\$ -	\$ -

Supplemental schedule of non-cash investing and financing activities:

On September 1, 2001 the notes payable in the amount of \$1,318,000 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. The following represents the assets and liabilities transferred by the settlement of the notes payable.

Book value of assets transferred	\$	2,682
Book value of liabilities transferred	\$	1,337

See accompanying notes to condensed consolidated financial statements.

EUROPEAN MICRO HOLDINGS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2002

(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 2002 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 September 30, 2002

(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. The balance of this loan as of September 30, 2002 in the amount of \$91,000 is included in due to related parties in the accompanying condensed consolidated statement of net assets in liquidation as of September 30, 2002.

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 September 30, 2002

(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 September 30, 2002.

b) Due to related parties consists of a note payable to Harry Shields in the amount of \$273,000 and accounts payable to Technology Express of \$27,000 and American Micro of \$26,000.

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.

American Micro Computer Center

American Micro Computer Center was a distributor of computer hardware based in Miami, Florida. John B. Gallagher who is Co-Chairman, Co-President, Director and shareholder (owning 39% of the outstanding shares) of European Micro Holdings, Inc., was the president of American Micro Computer Center and owns 50% of the outstanding shares of capital stock in that company.

Facilities and equipment

The Company utilized approximately 350 square feet of office space and certain equipment owned by Technology Express for which it was not charged a fee.

EUROPEAN MICRO HOLDINGS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2002

(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 Line of Credit. On December 20, 2000, the Company raised \$50,000 by issuing 25,020 shares of common stock under the Equity Line of Credit. The Company and the investor agreed to terminate the Equity Line of Credit effective May 15, 2001. In connection with such termination, all outstanding warrants held by the investor and the placement agent were terminated. The Company and the investor agreed to terminate the Equity Line of Credit 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 Alnwick, 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 September 30, 2002

(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 \$167,000 at exchange rate on September 30, 2002). This amount is included in due to related parties in the accompanying condensed consolidated statement of net assets in liquidation as of September 30, 2002. 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.

In October 2003, the Company and its affiliated defendants entered into a settlement agreement with Big Blue Products 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.

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 Discussion and Analysis of Financial Condition and Results of Operations.

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 Fairway Drive, Suite 105, Deerfield Beach, Florida 33441, and its telephone number is (954) 596-0249.

Results 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.

Three-Month Period Ended September 30, 2002 and 2001

Total Net Sales. Due to the operational closures, the last of which was European Micro UK, no sales have occurred since October 2001. Total net sales were \$9.7 million in the three-month period ended September 30, 2001. Nor'Easter's operations were closed in April 2001. Colchester's operations were closed during July 2001. In addition, American Micro was transferred back to its original shareholders on September 1, 2001, in settlement of notes payable. European Micro UK ceased operations in October 2001. As a result of these closures and transfers, the Company ceased generating revenue during the first half of fiscal 2002.

Operating Expenses. Operating expenses were \$12,000 in the three-month period ended September 30, 2002 as compared to \$1.4 million in the comparable period in 2001.

Seasonality

The Company typically experienced variations in its total net sales and net income on a quarterly basis as a result of many factors. These included, but were not limited to, seasonal variations in demand for the products and services offered by the Company, the introduction of new hardware and software technologies and products offering improved features and functionality, the introduction of new products and services by the Company and its competitors, the loss or consolidation of a significant supplier or customer, changes in the level of operating expenses, inventory adjustments, product supply constraints, competitive conditions including pricing, interest rate fluctuations, the impact of acquisitions, currency fluctuations and general economic conditions. Historical operating results included a reduction in demand in Europe during the summer months.

EUROPEAN MICRO HOLDINGS, INC.

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 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 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.

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.

Long-Term Capital. The Company's long-term capital needs were historically met from the sales of securities and long-term borrowings. Certain long-term funding was supplied to the Company in the form of capital lease agreements and term loans. The capital lease agreements were secured by vehicles owned by the Company. As of June 30, 2002, all capital lease agreements had been cancelled or assumed by other entities.

On October 28, 1999, the Company obtained a \$1.5 million term loan. The term loan agreement was with the same lender as the Nor'easter Micro and American Micro line of credit facilities discussed above. Further, the term loan credit agreement contained similar loan covenant requirements. The term loan was to be repaid with quarterly payments of \$125,000 over three years. The term loan bore interest at the one-month LIBOR plus two and one-quarter percentage points (2.25%). The term loan was secured by substantially all of the assets of the Company. As partial security for this loan, Messrs. Gallagher and Shields pledged to the lender a portion of their shares of common stock of the Company. In addition, Mr. Shields pledged personal assets as additional collateral and further agreed to maintain certain personal financial statement liquidity levels. As described above, the Company was not in compliance with loan covenants for the June 30, 2001 reporting period. This term loan was repaid on August 21, 2001.

EUROPEAN MICRO HOLDINGS, INC.

On July 16, 1999, European Micro UK purchased the office building in which it had previously been leasing space for 1,705,000 pounds sterling. The purchase price was financed in part by a loan in the amount of 1,312,000 pounds sterling. This loan called for monthly payments of principal and interest in the amount of 15,588 pounds sterling and had a maturity date of July 2009. The mortgage loan note bore interest at a fixed rate of 7.6%. The mortgage loan note included certain financial and non-financial covenants and restrictions. The agreement also contained a provision whereby the lender could have declared a default based on subjective criteria. The financial covenants were measured using the financial results of European Micro UK as of each fiscal year end. Based upon European Micro UK's fiscal year end operating results, European Micro UK was out of compliance with one of the covenant requirements at June 30, 2001 and December 31, 2001. The Company was not able to obtain a waiver of this non-compliance. European Micro UK sold the office building effective March 31, 2002 for 1,510,000 pounds sterling (\$2,143,000 at March 31, 2002). Proceeds from the sale were held in escrow at March 31, 2002. The proceeds were released from escrow on April 5, 2002, at which time the mortgage loan note secured by the office building plus accrued interest was paid in full in the amount of 1,102,000 pounds sterling. The remaining proceeds of 369,000 pounds sterling, after commissions and legal fees of 39,000 pounds sterling, were paid down on the related party note payable to Harry Shields.

On August 24, 2000, European Micro Holdings, Inc. entered into an Equity Line of Credit (the "Equity Credit Line"). The Company raised \$50,000 by issuing 25,020 shares of common stock under the Equity Line of Credit. The Company and the investor agreed to terminate the Equity Line of Credit 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.

Quantitative and Qualitative Disclosures About Market Risk.

Reporting Currency. European Micro Holding's, Nor'Easter's and American Micro's reporting and functional currency, as defined by Statement of Financial Accounting Standards No. 52, was the U.S. dollar. The functional currency of European Micro UK was the U.K. pound sterling and Colchester was the Singapore dollar. European Micro UK and Colchester translate into the reporting currency by measuring assets and liabilities using the exchange rates in effect at the balance sheet date and results of operations using the average exchange rates prevailing during the period.

Hedging and Currency Management Activities. The Company occasionally hedged to guard against currency fluctuations between the U.K. pound sterling and the U.S. dollar.

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.

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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 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 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 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.

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

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

(a) Exhibits.

Exhibit No.	Description	Location
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	

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		Incorporated by reference as Exhibit No. 4.03 to the Company's Registration Statement on 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.

Exhibit No.	Description	Location
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.

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| 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.

Exhibit No.	Description	Location
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		

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	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.

Exhibit No.	Description	Location
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