

EMVELCO CORP.
Form 10-Q
May 20, 2008

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

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

Commissions file number **001-12000**

EMVELCO CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

13-3696015

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

1061 ½ N Spaulding Ave., West Hollywood, California 90046
(Address of principal executive offices)

+1 (323) 822-1750

Issuer's telephone number

+1 (323) 822-1784

Issuer's facsimile number

Check whether the issuer (1) filed all reports required to be filed by Section 13 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 requirement for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

Common Stock, \$.001 par value
(Class)

5,608,681
(Outstanding at May 20, 2008)

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

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EMVELCO CORP.
CONDENSED CONSOLIDATED BALANCE SHEET

	March 31, 2008	December 31, 2007
	(Unaudited)	(Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 489,565	\$ 369,576
Accounts receivable	217,809	218,418
Prepaid assets	765	---
Restricted cash, certificate of deposit (Note 3)	12,968,204	13,008,220
Intangible, debt discount on conversion option, current (Note 5)	195,266	195,266
Loan to Affiliated Party - Emvelco RE Corp (Note 4)	5,327,486	4,538,976
Total current assets	19,199,095	18,330,456
Fixed assets, net	28,908	32,425
Construction in progress	2,755,569	2,215,725
Intangible, debt discount on conversion option, net of current portion (Note 5)	646,120	694,936
Investment in land development (Note 6)	35,227,993	33,050,052
Goodwill (Note 9)	1,185,000	1,185,000
Total assets	\$ 59,042,685	\$ 55,508,594
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	14,944,199	15,380,205
Due to related party	535,616	516,084
Secured bank loans (Note 3)	8,408,924	8,401,154
Note payable to AFG	1,660,000	---
Other current liabilities	305,520	305,520
Total current liabilities	25,854,259	24,602,963
Liability for escrow refunds	4,540,054	4,489,235
Fees due on closing	2,410,896	2,384,176
Convertible Note Payable to Third Party (Note 5)	2,221,066	2,277,633
Deferred taxes	880,007	812,711
Note Payable to Trafalgar	502,942	---
Other long term liabilities	2,224,652	1,919,964
Total liabilities	38,633,876	36,486,682
Commitments and contingencies (Note 9)		
Minority interest in subsidiary's net assets	9,438,510	6,145,474
Stockholders' equity		
Common stock, \$.001 par value - Authorized 35,000,000 shares; 5,889,074 shares issued of which 5,108,681 and 4,609,181 shares are outstanding, respectively	5,109	4,609
Additional paid-in capital	53,790,032	53,281,396

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Accumulated deficit	(41,131,419)	(38,289,630)
Accumulated other comprehensive income	424,796	(2,226)
Treasury stock - 1,280,393 Common shares, at cost	(2,118,219)	(2,117,711)
Total stockholders' equity	10,970,299	12,876,438
Total liabilities and stockholders' equity	\$ 59,042,685	\$ 55,508,594

See accompanying notes to condensed consolidated financial statements.

EMVELCO CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(LOSS)
(Unaudited)

	Three Months Ended March 31,	
	2008	2007
Revenues	\$ -	\$ -
Cost of revenues	-	-
Operating expenses		
Compensation and related costs	76,101	81,188
Consulting, professional and directors fees	2,641,649	209,071
Other selling, general and administrative expenses	285,311	75,162
Total operating expenses	3,003,060	365,421
Operating loss	(3,003,060)	(365,421)
Interest income	196,343	618,405
Interest expense	(104,491)	(56,851)
Other Income from securities net	---	6,378
Net (loss) income before minority interest	(2,911,208)	202,511
Less minority interest in loss of consolidated subsidiary	69,419	---
Net (loss) income	(2,841,789)	202,511
Other comprehensive income (loss)	427,022	-
Comprehensive income (loss)	(2,414,767)	202,511
Net income (loss) per share, basic and diluted	\$ (0.59)	\$ 0.04
Weighted average number of shares outstanding, basic and diluted	4,797,055	5,083,950

See accompanying notes to condensed consolidated financial statements.

EMVELCO CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional	Accumulated	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Number of shares	Amount	Paid-in Capital	Deficit			
Balances, January 1, 2006	5,784,099	\$ 5,784	\$ 51,558,123	\$ (34,302,431)	\$ 99,681	-	\$ 17,361,157
Foreign currency translation loss	-	-	-	-	(94,142)	-	(94,142)
Compensation charge on share options and warrants issued to employees, directors and consultants	-	-	341,206				341,206
Issuance of shares to the President	104,975	105	325,500	-	-	-	325,605
Treasury stock	(476,804)	(476)	-	-	-	(994,884)	(995,360)
Net income for the year	-	-	-	6,912,591	-	-	6,912,591
Balances, December 31, 2006	5,412,270	\$ 5,413	\$ 52,224,829	\$ (27,389,840)	\$ 5,539	\$ (994,884)	\$ 23,851,057
Foreign currency translation loss					(7,765)		(7,765)
Compensation charge on share options and warrants issued to consultants			80,233				80,233
Treasury stock - Open Market	(180,558)	(181)	-	-	-	(288,636)	(288,817)
Treasury stock - Navigator Sale	(622,531)	(623)	-	-	-	(834,191)	(834,814)
Discount on Appswing Note Payable			976,334				
Net loss for the period	-	-	-	(10,899,790)	-	-	(10,899,790)
Balances, December 31, 2007	4,609,181	\$ 4,609	\$ 53,281,396	\$ (38,289,630)	(2,226)	\$ (2,117,711)	\$ 12,876,438
Foreign currency translation loss					427,022		427,022
			9,136				9,136

Compensation
charge on share
options and
warrants issued to
consultants

Treasury stock - Open Market	(500)					(508)	(508)
Issuance of shares	500,000	500	499,500				500,000
Net loss for the period				(2,841,789)			(2,841,789)
Balances, March 31, 2008	5,108,681	\$ 5,109	53,790,032	(41,131,419)	424,796	(2,118,219)	\$ 10,970,299

See accompanying notes to condensed consolidated financial statements.

EMVELCO CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 31,	
	2008	2007
Net (loss) income	\$ (2,841,789)	\$ 202,511
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation and amortization	52,333	--
Share-based compensation expense	9,136	--
Change in minority interest of subsidiary's net assets	3,293,036	--
Foreign exchange rate adjustment	427,022	--
Accrued interest, net	14,345	--
Net change in assets and liabilities		
Accounts receivable	609	--
Prepaid assets	(765)	15,998
Restricted cash, certificate of deposit (Note 3)	40,016	(102,822)
Construction in progress	(539,844)	--
Accounts payable and accrued expenses	(436,006)	138,911
Other current liabilities	--	(191,475)
Liability for escrow refunds	50,819	--
Fees due on closing	26,720	--
Due to related party	19,532	--
Deferred income taxes	67,296	--
Other long term liabilities	304,688	--
Net cash provided by operating activities	487,148	63,123
Cash flows from investing activities:		
Cash received from sale of discontinued operations - Navigator	--	3,200,000
Loan advances to ERC	(788,510)	(4,918,373)
Advances to affiliate - Micrologic	---	(100,000)
Investment in land development	(2,177,941)	--
Net cash used in investing activities	(2,966,451)	(1,818,373)
Cash flows from financing activities:		
Proceeds from bank loans	39,800	2,755,000
Repayment of bank loans	---	(3,000,000)
Repayment of convertible note	(100,000)	--
Proceeds from Trafalgar note payable	500,000	--
Proceeds from issuance of stock	500,000	--
Payments to acquire treasury stock	(508)	(153,224)
Proceeds from AFG loan	1,660,000	--
Net cash provided by (used in) financing activities	2,599,292	(398,224)
Net decrease in cash and cash equivalents	119,989	(2,153,474)
Cash and cash equivalents, beginning of period	369,576	2,852,620
Cash and cash equivalents, end of period	\$ 489,565	\$ 699,146

Supplemental disclosure:			
Cash paid for interest	\$	17,063	\$ 56,851
Cash received for interest		108,193	618,405
Summary of non-cash transactions:			
Accrued interest capitalized into Investment in real property	\$	212,856	\$ --
Treasury shares acquired in sale of subsidiary		--	834,191

See accompanying notes to condensed consolidated financial statements.

EMVELCO CORP.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Business

Emvelco Corp. ("Emvelco"), formerly known as Euroweb International Corp., is a Delaware Corporation, which was incorporated on November 9, 1992. Emvelco and its consolidated subsidiaries are collectively referred to herein as the "Company". The Company's authorized capital stock consists of 35,000,000 shares with a par value of \$0.001 per share. As of March 31, 2008, there are 5,108,681 shares issued and outstanding.

The Company invests in real estate development, and in the financing of businesses through Emvelco RE Corp. ("ERC") and its subsidiaries in the United States of America ("US"). The Company commenced operations in the investment real estate industry through the acquisition of an empty, non-operational, wholly-owned subsidiary, ERC, which was acquired in June 2006. Primary activity of ERC includes investment, development and subsequent sale of real estate, as well as investment in the form of loans provided to, or ownership acquired in, property development companies, directly or via majority or minority owned affiliates. The Company's headquarters are located in West Hollywood, California.

On February 16, 2007, the Company entered into a Sale and Purchase Agreement (the "Navigator Agreement") to sell a 100% of Navigator Informatika Rt. ("Navigator"), a wholly-owned subsidiary of the Company. For the year ended December 31, 2006, the operations of Navigator have been presented as discontinued operations in the Company's consolidated financial statements (see Note 10). In 2006, the Navigator assets were examined for impairment and the net assets of Navigator were written down to fair value of \$4,034,191. The resulting impairment charge was \$5,598,438, which is presented in the financial statements in the income from discontinued operations in 2006.

On May 14, 2007, the Company entered into a Stock Transfer and Assignment of Contract Rights Agreement (the "TIHG Agreement") with ERC, ERC's principal shareholder TIHG and ERC's wholly owned subsidiary Verge. Pursuant to the TIHG Agreement, the Company transferred and conveyed its 1,000 Shares (representing a 43.33% interest) (the "ERC Shares") in ERC to TIHG to submit to ERC for cancellation and return to Treasury.

Based on series of agreements commencing June 5, 2007 and following by July 23, 2007 (as reported on the Company's Form 8-K filed June 11, 2007), the Company, the Company's chief executive officer Yossi Attia, and Darren Dunckel - CEO of ERC (collectively, the "Investors") entered into an Agreeeme