

WESTSPHERE ASSET CORP INC
Form 10QSB
May 24, 2004

U.S. 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: March 31, 2004

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-32051

WESTSPHERE ASSET CORPORATION, INC.

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

COLORADO
(State or other jurisdiction
of incorporation or organization)

98-0233968
(IRS Employer
Identification No.)

Pegasus Way

Calgary, Alberta Canada

Telephone (403) 290-0264
(Issuer's telephone number)

NOT APPLICABLE

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

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 requirements for the past 90 days.

Yes No

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

29,738,460 shares of Common Stock, no par value, as of May 15, 2004.

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

PART I - FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

WESTSPHERE ASSET CORPORATION, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004

| | <i>Page</i> |
|---------------------------------------|-------------|
| Consolidated Financial Statements: | |
| Consolidated Balance Sheets | F - 2 |
| Consolidated Statements of Operations | F 3 |
| Consolidated Statements of Cash Flows | F 4 |
| Notes to Financial Statements | F - 5 |

WESTSPHERE ASSET CORPORATION, INC.**Consolidated Balance Sheets**

| | March 31, 2004 (Unaudited) | December 31, 2003 (Note 1) |
|--|----------------------------------|----------------------------------|
| Cash | \$ 111,201 | \$ 91,398 |
| Accounts receivable | 259,996 | 266,857 |
| Accounts receivable related parties | 35,844 | 42,577 |
| Inventory | 74,763 | 112,249 |
| Prepaid expense and deposit | 32,076 | 32,659 |
| Current portion of mortgage receivable | 43,122 | 43,572 |
| Total current assets | 557,002 | 589,312 |
| Property and equipment, net | 305,511 | 317,924 |
| Intellectual property | 118,673 | 120,277 |
| Mortgage receivable | 213,302 | 232,908 |
| Loans related parties | 100,858 | 101,909 |
| Future tax benefits | 61,789 | 62,433 |
| Other investments | 233,825 | 244,863 |
| Total assets | \$ 1,590,960 | \$ 1,669,626 |
| <i>LIABILITIES AND STOCKHOLDERS EQUITY</i> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 301,334 | \$ 295,433 |
| Accounts payable, related parties | 158,440 | 172,357 |
| Total current liabilities | 459,774 | 467,790 |
| Shareholder loans | 241,368 | 233,499 |
| Bank loan | 148,774 | 161,953 |
| Convertible debentures | 110,829 | 111,985 |
| Non-current lease obligation | 10,769 | 14,343 |
| Total liabilities | 971,514 | 989,570 |
| Minority interest in subsidiaries | 10,878 | 11,057 |

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS EQUITY

Common stock authorized 75,000,000 shares,
no par value;

29,738,460 shares issued and outstanding at

March 31, 2004 and 29,564,640 at December 31,
2003

| | | |
|---|--------------|--------------|
| | 1,300,139 | 1,291,313 |
| Common stock warrants | 190,285 | 190,285 |
| Accumulated other comprehensive income | 124,941 | 131,087 |
| Accumulated deficit | (1,006,797) | (943,686) |
| Total stockholders equity | 608,568 | 668,999 |
| | | |
| Total liabilities and stockholders equity | \$ 1,590,960 | \$ 1,669,626 |

The accompanying notes are an integral part of these statements.

WESTSPHERE ASSET CORPORATION, INC.**Consolidated Statements of Operations*****For the Three Months Ended March 31,******(Unaudited)***

| | 2004 | | 2003 |
|---------------------------------------|-----------|----|----------|
| Revenue - | | | |
| Equipment and supplies | \$ 84,691 | \$ | 200,597 |
| Residual and interchange income | 555,096 | | 366,466 |
| Other | 20,970 | | 28,656 |
| Total revenue | 660,757 | | 595,719 |
| Cost of sales - | | | |
| Equipment and supplies | 77,792 | | 178,173 |
| Residual and interchange costs | 293,814 | | 172,522 |
| Commissions | 3,376 | | 3,944 |
| Other | 3,942 | | 5,264 |
| Total cost of sales | 378,924 | | 359,903 |
| Gross profit | 281,833 | | 235,816 |
| Administrative expenses - | | | |
| Depreciation and amortization | 22,387 | | 8,989 |
| Consulting fees | 24,935 | | 70,178 |
| Legal and accounting fees | 6,688 | | 9,733 |
| Salaries and benefits | 159,172 | | 111,127 |
| Travel, delivery and vehicle expenses | 19,135 | | 29,353 |
| Other | 98,623 | | 70,267 |
| Total administrative expenses | 330,940 | | 299,647 |
| Income (loss) from operations | (49,107) | | (63,831) |
| Other income - | | | |
| Interest income | 4,342 | | 4,254 |
| Interest expense | (18,346) | | (11,428) |
| Gain on asset sales | | | 30,983 |
| Net income (loss) before income taxes | (63,111) | | (40,022) |

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| | | | |
|---|-------------|----|------------|
| Provision for income taxes | | | (1,985) |
| Net income (loss) | \$ (63,111) | \$ | (42,007) |
| Net income per common share | \$ nil | \$ | nil |
| Weighted number of shares outstanding | 29,651,550 | | 28,817,265 |
| Other comprehensive income: | | | |
| Net income (loss) | \$ (63,111) | \$ | (42,007) |
| Foreign currency translation adjustment | (7,853) | | 55,796 |
| Total comprehensive income | \$ (70,934) | \$ | 13,789 |

The accompanying notes are an integral part of these statements

WESTSPHERE ASSET CORPORATION, INC.**Consolidated Statements of Cash Flows*****For the Three Months Ended March 31,******(Unaudited)***

| | 2004 | 2003 |
|--|-------------|-------------|
| Cash flows from operating activities: | | |
| Net (loss) from operations | \$ (63,111) | \$ (42,007) |
| Reconciling adjustments - | | |
| Common shares issued for expenses | 7,313 | 3,395 |
| Depreciation and amortization | 29,505 | 8,989 |
| Gain on sale of assets | | (30,983) |
| Other non-cash transactions | 1,513 | (319) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 10,400 | (14,813) |
| Inventory | 36,328 | 47,612 |
| Prepaid expenses and other | 246 | (3,939) |
| Accounts payable and accrued liabilities | 10,999 | 2,213 |
| Net cash provided by (used for) operations | 33,193 | (29,852) |
| Cash flows from investing activities: | | |
| Purchase of equipment | (18,255) | (12,525) |
| Disposal of equipment | | 15,098 |
| Collection on loans receivable | 17,202 | 14,656 |
| Other investments | | (16,322) |
| Net cash provided by (used for) investing activities | (1,053) | 907 |
| Cash flows from financing activities: | | |
| Issuance of debt | 7,587 | |
| Repayment of debt | (18,084) | |
| Net cash provided by financing activities | (10,497) | |
| Foreign currency translation adjustment | (1,840) | 36,033 |
| Net change in cash and cash equivalents | 19,803 | 7,088 |

| | | | | |
|--|----|---------|----|---------|
| Cash and cash equivalents at beginning of period | | 91,398 | | 138,219 |
| Cash and cash equivalents at end of period | \$ | 111,201 | \$ | 145,307 |

Supplemental schedule of cash flow information

| | | | | |
|---------------------------|----|-------|----|--|
| Interest paid in cash | \$ | 2,448 | \$ | |
| Income taxes paid in cash | \$ | | \$ | |

The accompanying notes are an integral part of these statements

WESTSPHERE ASSET CORPORATION, INC.

Notes to Financial Statements

For the Three Months Ended March 31, 2004

Note 1 Financial Statements

The accompanying consolidated financial statements included herein have been prepared by Westsphere Asset Corporation, Inc. (the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-QSB. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations, and Westsphere Asset Corporation, Inc. believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the December 31, 2003 audited financial statements and the accompanying notes thereto contained in the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. While management believes the procedures followed in preparing these financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by Westsphere Asset Corporation, Inc. later in the year. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. In management's opinion all adjustments necessary for a fair presentation of the Company's financial statements are reflected in the interim periods included.

Note 2 Common Stock

During the three months ended March 31, 2004, the Company issued an additional 173,820 shares of its common stock at an average price of \$0.051 for payment of accrued interest and consulting.

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

During the three (3) month period of operations ended March 31, 2004, Westsphere and its subsidiaries generated a net loss from operations of \$63,111, while net loss from operations of \$42,007 were realized for the same period from the previous year. The total revenue earned during the first quarter of year 2004 increased by \$65,038 to \$660,757 from total revenue earned during the same period from the previous year of \$595,719. This increase in revenue was primarily due to a significant increase in residual and interchange income, partially offset by a decrease in the sale of equipment and supplies. The drop in sales of equipment and supplies was due to Westsphere's subsidiary Vencash focus on restructuring and reorganizing its infrastructure during this period. The increase in residual and interchange income was due to the sale of equipment during the year 2003, and partially from placement of ATMs which are owned by Vencash. Westsphere's gross margin during the first quarter of year 2004 increased by 3% to 43% from gross margin during the same period from the previous year of 40%. Westsphere's total administrative expenses for the first quarter of 2004 increased to \$330,940 from \$299,647 from the previous year. Most of such increase was caused by an increase in salaries and benefits from \$111,127 to a total of \$159,172. The increase in salaries and benefits is due to additional sales and marketing staff and administrative staff to handle the increase in volume of transactions and paperwork. There was also an increase in depreciation and amortization from the first quarter of year 2003 from \$8,989 to a total of \$22,387 during the first quarter of year 2004, which was due to an increase in the placement of capital assets (ATMs) during the year 2003. Other expenses also increased from the first quarter of year 2003 of \$70,267 to \$98,623 during the first quarter of year 2004, which was primarily due to promotion materials, repairs and maintenance, and increase in travel expenses to promote new programs.

Westsphere and its subsidiaries currently generate sufficient cash flow to cover all of its consolidated operating expenses. The restructuring and reorganizing of Vencash's infrastructure, is expected to result in significant cost savings in the second quarter of this year.

In order to grow Westsphere's businesses of ATM machines, financing/leasing and POS machines, Westsphere is dependent upon private placements, loans and/or joint venture arrangements. Westsphere's profit is expected to be generated by the surcharges collected from ATM machines, the sale of ATM machines, sale of POS machines and the collection of Finance/Lease charges.

Changes in Financial Position

During the three (3) month period ended March 31, 2004, Westsphere's total assets decreased to \$1,590,960 from \$1,669,626 as at December 31, 2003. This decrease is primarily due to a decrease in inventory on hand, and a decrease in mortgage receivable. As of March 31, 2004, Westsphere's current liabilities totaled \$459,774 and consisted of accounts payable of \$32,887 to suppliers for the purchase of ATM machines and POS machines with \$88,468 due for consulting services, \$93,667 due for return of surcharge and interchange fees, \$67,763 due for officers and directors bonuses payable from year 2002, and \$18,549 due for office expense, equipment leases, and various other general fees and charges, and accounts payable to related

parties in the amount of \$158,440. Long-term liabilities as at March 31, 2004 consist of \$110,829 in convertible debentures, \$241,368 in shareholders loan, a bank loan in the amount of \$148,774 and non-current lease obligations of \$10,769.

Shareholders' equity as of March 31, 2004 was \$608,568, inclusive of an accumulated loss from operations of \$1,006,797, as compared to shareholders equity of \$668,999 as of December 31, 2003. Total issued and outstanding share capital as of the period ended March 31, 2004 was 29,738,460 common shares as compared to a total of 29,564,640 common shares as of December 31, 2003.

Liquidity and Capital Resources

Summary of Working Capital and Stockholders' Equity

As of March 31, 2004, the Company had working capital of \$97,228 and Stockholders' Equity of \$608,568 compared with working capital of \$121,522 and Stockholders' Equity of \$668,999 as of December 31, 2003. The Company's working capital has decreased principally as a result of a decrease in inventory, which was caused by placement of new ATMs which added to Capital Asset. Stockholders' Equity declined predominantly as a result of the operating losses for the period. Additionally, the Company anticipate a significant cost savings as a result of the restructure and reorganize of its group of companies infrastructure in the remainder of this year to obtain additional capital investment in amounts sufficient to fund operating losses and cash used as described in our financial statements.

Financing activities during the three month period resulted in the use of net cash of \$10,497, which was caused by the repayment of \$18,984 in debt and the issuance of new debt in the amount of \$7,587. The Company's consolidated operations provided \$33,193 in net cash, compared to the use of net cash in the amount of negative \$29,852 during the same period from the previous year. This increase in cash flow from operations was the result no loss from the sale of assets (compared to a loss of \$30,983 during the period ended March 31, 2003), an increase in depreciation and amortization to \$29,505 (compared to \$8,989 in 2003), an increase in accounts receivable to \$10,400 (compared to a decrease of \$14,813 in 2003). The changes in cash flows were driven by the Company having placed more units in previous periods, which resulted in an increase of depreciation and accounts receivable.

Liquidity

The Company anticipates it has sufficient funds over the next twelve months to meet its operation needs. The Company currently has \$111,201 in cash and will not have to raise additional funds to meet its operational needs for the next twelve months. However, the Company intends to raises \$1 million to fund its plans for growth of its subsidiaries. Such amount would allow Vencash Capital to purchase and place an additional 330 automated teller machines. The Company does not anticipate commencement of any capital raising efforts until the 3rd or 4th quarter of

the current calendar year. The Company has not yet made any determination whether it will attempt to obtain equity or debt financing or any other terms, which will be dependent on a variety of factors. As of the filing of this report, the Company has sufficient funds to meet its existing revenue shortfall for the funding of its consolidated

operations. The Company anticipates revenues generated from its sales of equipments and supplies and residual and interchange income will greatly reduce the requirement for additional funding; however, we cannot be certain the Company will be successful in achieving revenues from those operations.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

ITEM 3. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer, Mr. Doug Mac Donald, and its Chief Financial Officer, Mr. Kim Law, have implemented the Company's disclosure controls and procedures to ensure that material information relating to the Company is made known to Mr. Mac Donald and Mr. Law. These executive officers have evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2004 (the Evaluation Date).

Based on such evaluation, Messrs. Mac Donald and Law have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company that is required to be included in our reports filed or submitted under the Securities Exchange Act of 1934. Moreover, there were no significant changes in internal controls or in other factors that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A.

Exhibits - See Exhibit Index below.

B.

Reports on Form 8-K - none.

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.

WESTSPHERE ASSET CORPORATION, INC.

By: /s/ Douglas MacDonald

Name: Douglas MacDonald

Title:

President

Date:

May 21, 2004

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Kim Law

Name: Kim Law

Title:

Principal Financial Officer and Accounting Officer

Date:

May 21, 2004

| <u>Exhibit Number</u> | <u>Description</u> | <u>Reference</u> |
|------------------------------|---|---|
| 3.1(i) | Articles of Incorporation filed and all amendments thereto filed with the Secretary of the State of Colorado July 21, 1998 | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |
| 3(i)(a) | By-Laws of Westsphere Asset Corporation, Inc. | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |
| 3(i)(b) | By-Laws of Vencash Capital Corporation | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |
| 4 | Specimen Stock Certificate | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |
| 10.1 | Agreement dated December, 1998 by and between Westsphere Asset Corporation, Inc. and 3 Ocean Investment Corporation | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |
| 10.2 | Share Exchange Agreement dated December 7, 1998 by and between Westsphere Asset Corporation, Inc. MacDonald Venture Corporation, Mr. Joseph Bowser and Mr. Robert L. Robins | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |

| | | |
|------|---|---|
| 10.3 | Sample Conversion Agreement by and among Westsphere Asset Corporation, Inc. and various shareholders of Vencash Capital Corporation | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |
| 10.4 | ABS Processing Agreement dated October 28, 19988 by and between Vencash Capital Corporation and TNS Smart Network Inc. | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |
| 10.5 | Agreement dated June 24, 1999 by and between Vencash Capital Corporation and TCS (Canada) Limited | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |
| 10.6 | Sample Convertible Debenture issued by Westsphere Asset Corporation, Inc. in connection with the offering of \$105,600 convertible debentures | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |
| 10.7 | Sample Loan Agreement and Promissory Note between Westsphere Asset Corporation, Inc. and various investors | Incorporated by reference to the Exhibits filed with the Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2000 |
| 10.8 | Loan Agreement between Westsphere Asset Corporation, Inc. and the Canadian Western Bank | Incorporated by reference to the Exhibits filed with the Registrant's quarterly Report on Form 10-QSB for the period ended June 30, 2003 |

| | | |
|-------|---|--|
| 10.9 | Agreement dated April 1, 2003 between Douglas MacDonald and Westsphere Asset Corporation | Incorporated by reference to the Exhibits filed with the Registrant's quarterly report on Form 10-QSB for the period ended September 30, 2003. |
| 10.10 | Agreement dated April 1, 2003 between Vencash Capital Corporation, Douglas MacDonald and MacDonald & Associates Gaming Specialists Inc. | Incorporated by reference to the Exhibits filed with the Registrant's quarterly report on Form 10-QSB for the period ended September 30, 2003. |
| 10.11 | Agreement dated April 1, 2003 between Westsphere Financial Group Ltd., Douglas MacDonald and MacDonald & Associates Gaming Specialists Inc. | Incorporated by reference to the Exhibits filed with the Registrant's quarterly report on Form 10-QSB for the period ended September 30, 2003. |
| 31.1 | Rule 12aq-14(a)/15D-14(a) Certification of the Chief Executive Officer | Filed herewith |
| 31.2 | Rule 12aq-14(a)/15D-14(a) Certification of the Chief Financial Officer | Filed herewith |
| 32.1 | Certification Chief Executive Officer pursuant to 18USC Section 1350, as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.2 | Certification Chief Financial Officer pursuant to 18USC Section 1350, as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith |