

ATLANTIC WINE AGENCIES INC
Form 10QSB
February 19, 2008

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

FORM 10-QSB

Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2007

Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from _____ to _____

Commission File Number: 333-63432

Atlantic Wine Agencies Inc.
(Exact name of small business issuer as specified in its charter)

Florida 65-1102237
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

Mount Rosier Estate (Pty) Ltd.
Farm 25 A-Sir Lowry's Pass Village
Somerset West, 7129
South Africa
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: 011.27.218.581130
(Issuer's telephone number)

Former Name, Address and 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

The number of shares of outstanding common stock of Atlantic Wine Agencies, Inc. (the "Company"), which is the only class of its common equity, on February 15, 2008, was 86,323,880.

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

Transitional Small Business Disclosure Format: Yes No

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Item 1. Financial Statements

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ITEM 1. FINANCIAL STATEMENTS

ATLANTIC WINE AGENCIES, INC. and SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 31, 2007	March 31, 2007
	(unaudited)	
CURRENT ASSETS		
Cash		\$ 341
Accounts receivable	\$ 39,963	37,875
Inventory	193,957	144,480
Prepaid expenses and other	740	13
Total Current Assets	234,660	182,709
OTHER ASSETS		
Property, plant and equipment, net	2,574,763	2,437,488
Trademarks, net	1,376	1,207
Total Assets	\$ 2,810,799	\$ 2,621,404
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank overdraft	\$ 976,589	\$ 158,967
Loans from principal shareholders	1,259,863	1,259,863
Accounts payable	121,119	208,669
Accrued expenses	279,183	332,618
Loan payable to principal officer	135,320	135,320
Total Current Liabilities	2,772,074	2,095,437
STOCKHOLDERS' EQUITY		
Common stock authorized 150,000,000 shares; \$0.00001 par value; issued and outstanding 86,323,880 shares	868	868
Additional contributed capital	7,829,536	7,829,536
Accumulated other comprehensive income	413,361	444,793
Accumulated deficit	(8,205,040)	(7,749,230)
Total Stockholders' Equity	38,725	525,967
Total Liabilities and Stockholders' Equity	\$ 2,810,799	\$ 2,621,404

See accompanying notes to financial statements.

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ATLANTIC WINE AGENCIES, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2007	Nine Months Ended December 31, 2006
NET SALES	\$ 54,842	\$ 20,577	\$ 169,255	\$ 121,176
COSTS AND EXPENSES-				
Cost of goods sold	27,329	27,816	72,089	79,321
Selling, general and administrative	175,158	148,980	430,739	318,792
Depreciation and amortization	10,656	24,779	75,000	75,644
Interest expense	39,273	5,539	55,414	6,156
Total Costs and Expenses	252,416	207,114	633,242	479,913
OTHER INCOME				
Insurance claims				9,505
Other miscellaneous income	383		8,177	
Total Other Income	383		8,177	9,505
NET LOSS	\$ (197,191)	\$ (186,537)	\$ (455,810)	\$ (349,232)
NET (LOSS) PER COMMON SHARE				
(Basic and diluted)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
WEIGHTED AVERAGE COMMON SHARES				
OUTSTANDING	86,323,880	86,323,880	86,323,880	86,323,880

See accompanying notes to consolidated financial statements.

ATLANTIC WINE AGENCIES, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended December 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for period	\$ (455,810)	\$ (349,232)
Non-cash items included in net loss		
Depreciation and amortization	75,000	75,644
Provision for Doubtful Accounts		75,600
Changes in operating assets and liabilities:		
Accounts receivable	2,088	237,014
Inventory	(49,477)	(274,623)
Prepaid expense and other	(727)	606
Accounts payable	(87,550)	23,060
Accrued expenses	(53,435)	76,091
Accrued payroll taxes		(25,207)
Net Cash Used in Operating Activities	(569,911)	(161,047)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank overdraft	817,622	
Loan from principal shareholders		(2,200)
Due to factoring agent		(99,595)
Net Cash Provided by (Used in) Investing Activities	817,622	(101,795)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(27,161)	
Disposal of fixed assets		191,316
Net Cash Provided by (Used in) Financing Activities	(27,161)	191,316
EFFECT OF RATE CHANGE ON CASH	(220,891)	7,323
NET INCREASE (DECREASE) IN CASH	(341)	(64,203)
CASH AT		
BEGINNING OF PERIOD	341	78,145
CASH AT END OF PERIOD	\$ 0	\$ 13,942

See accompanying notes to financial statements.

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ATLANTIC WINE AGENCIES, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

(Unaudited)

NOTE A - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. 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, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not misleading have been included. Results for the nine months ended December 31, 2007 are not necessarily indicative of the results that may be expected for the year ending March 31, 2008. For further information, refer to the financial statements and footnotes thereto included in the Atlantic Wine Agencies' Inc. annual report on Form 10-KSB for the year ended March 31, 2007.

NOTE B - GOING CONCERN

As indicated in the accompanying financial statements, the Company has an Accumulated deficit of \$8,205,040 and a negative working capital of \$2,537,414. Management's plans include the raising of capital through the equity markets to fund future operations and the generating of revenue through its business. Failure to raise adequate capital and generate adequate sales revenues could result in the Company having to curtail or cease operations. Additionally, even if the Company does raise sufficient capital to support its operating expenses and generate adequate revenues, there can be no assurances that the revenue will be sufficient to enable it to develop business to a level where it will generate profits and cash flows from operations. These matters raise substantial doubt about the Company's ability to continue as a going concern. However, the accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE C – OVERDRAFT FACILITY

On April 17, 2007, the Company entered into an additional facility arrangement with ABSA, a South African Bank for R\$7,000,000 (U.S. \$1,000,000). The loan is secured by the assets of the South African Winery and bears interest at the South African prime rate 12.5% per annum. The balance at December 31, 2007 is \$976,589.

NOTE D - SUBSEQUENT EVENT

On January 11, 2008, Atlantic Wine Agencies, Inc. (the "Company") entered into an agreement with Sapphire Developments Limited ("Sapphire") and Fairhurst Properties S.A. ("Fairhurst") to restructure certain debt held by Sapphire (the "Debt Restructuring Agreement"). The Debt Restructuring Agreement was executed to address a November 16, 2005 loan to the Company by Sapphire of One Million Two Hundred Fifty-Nine Thousand Eight Hundred Sixty-Three U.S. Dollars (US \$1,259,863). Sapphire agreed to terminate the Promissory Note and restructure its debt in exchange for the following consideration articulated in the Debt Restructuring Agreement:

- The Company agreed to pay Three Million Two Hundred Thousand South African Rand (R \$3,200,000) to Sapphire, an amount approximately equal to Four Hundred Sixty-Eight Thousand and Ninety Two U.S. Dollars (US \$468,092), in two installments. The first installment of One Million Two Hundred Thousand South African

Rand (R\$1,200,000) was paid by the Company on January 11, 2008. The second installment of Two Million South African Rand (R \$2,000,000) was to be paid on or before January 31, 2008, but was extended pursuant to an agreement between the Company and Sapphire.

- The Company issued 26,699,950 restricted shares of the Company’s common stock (the “Shares”) to Sapphire in exchange for relief from \$533,999 of the debt underlying the Promissory Note.
- The Company, Sapphire, and Fairhurst entered into a voting agreement concurrent with the Debt Restructuring Agreement (“Voting Agreement”).
- The Company issued a promissory note to Fairhurst for approximately \$400,000 without interest to mature on January 11, 2009.
 - Each of Sapphire and Fairhurst executed mutual releases.
- Fairhurst will ensure that Adam Mauerberger remain as the Chief Executive Officer of the Company until such time that a material merger or share exchange occurs (“Atlantic Corporate Event”).
- 19,960,000 shares of the Company’s common stock owned by Fairhurst (“Fairhurst Shares”) shall be transferred to Sapphire upon the earlier of the six-month anniversary date of the Debt Restructuring Agreement or the completion of an Atlantic Corporate Event.

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

On October 13, 2006, we entered into an agreement with Auction Alliance, a South African auction firm, to sell our Myrtle Grove Property and Estates, subject to the minimum reserve being met. Assets including land, vineyards, winery equipment and stock were included in the auction sale. The initiation of the auction process resulted from the conclusions that (i) after expending considerable resources and efforts in developing our business and building world class wine brands from South Africa, significantly more capital is necessary to further grow the business which are unable to procure on commercially acceptable terms, (ii) The ZAR (South African Rand) has shown considerable volatility related to uncertainty regarding future political situation and (iii) the best time to maximize our South African property and operations is by selling through the public auction process locally in South Africa prior to the growing season in the southern hemisphere. We failed to agree to the terms to sell our assets in the auction process and thus continue operating our winery business. However, we will continue to seek alternative business operations and any transaction that would involve the sale of most or all of our assets. If and when such sale has been completed, we will seek to use the proceeds from such sale, after satisfying our current liabilities, to develop or acquire a business or businesses which we believe will best serve the long term interests of our shareholders. Such businesses may or may not be related to the wine industry.

On January 11, 2008, Atlantic Wine Agencies, Inc. (the "Company"), entered into an agreement with Sapphire Developments Limited ("Sapphire") and Fairhurst Properties S.A. ("Fairhurst") to restructure certain debt held by Sapphire (the "Debt Restructuring Agreement"). The Debt Restructuring Agreement was executed to address a November 16, 2005 loan to the Company by Sapphire of One Million Two Hundred Fifty-Nine Thousand Eight Hundred Sixty-Three U.S. Dollars (US\$1,259,863) with Five Percent (5%) interest calculated on an annualized basis pursuant a promissory note ("Promissory Note"). As of January 11, 2008, the balance due was One Million Three Hundred Eighty Eight Thousand Nine Hundred and Ninety Nine U.S. Dollars (US\$1,388,999). Sapphire agreed to terminate the Promissory Note and restructure its debt in exchange for the following consideration articulated in the Debt Restructuring Agreement:

- The Company agreed to pay Three Million Two Hundred Thousand South African Rand (R\$3,200,000) to Sapphire, an amount approximately equal to Four Hundred Sixty-Eight Thousand and Ninety Two U.S. Dollars (US\$468,092), in two installments. The first installment of One Million Two Hundred Thousand South African Rand (R\$1,200,000) was paid by the Company on January 11, 2008. The second installment of Two Million South African Rand (R\$2,000,000) was to be paid on or before January 31, 2008 but was extended pursuant to an agreement between the Company and Sapphire.
- The Company issued 26,699,950 restricted shares of the Company's common stock (the "Shares") to Sapphire in exchange for relief from \$533,999 of the debt underlying the Promissory Note.
- The Company, Sapphire and Fairhurst entered into a voting agreement concurrent with the Debt Restructuring Agreement ("Voting Agreement").
- The Company issued a promissory note to Fairhurst for approximately \$400,000 without interest to mature on January 11, 2009.

Each of Sapphire and Fairhurst executed mutual releases.

- Fairhurst will ensure that Adam Mauerberger remain as the Chief Executive Officer of the Company until such time that a material merger or share exchange occurs ("Atlantic Corporate Event").
- 19,960,000 shares of the Company's common stock owned by Fairhurst ("Fairhurst Shares") shall be transferred to Sapphire upon the earlier of the six-month anniversary date of the Debt Restructuring Agreement or the completion of an Atlantic Corporate Event.

We will continue our efforts to develop or acquire a business or businesses which we believe will best serve the long term interests of our shareholders. Such businesses may or may not be related to the wine industry.

RESULTS OF OPERATIONS

Our revenues from the previous 3-month period ending December 31, 2006 increased from \$20,577 to \$54,842. Our revenues from the previous nine-month period ending December 31, 2006 increased from \$121,176 to \$169,255.

Operating costs for the three-months ended December 31, 2007 aggregated \$252,416 or \$(0.01) per share as compared to \$207,114 or \$(0.01) per share for the three-months December 31, 2006. Operating costs for the nine-months ended December 31, 2007 aggregated \$633,242 or \$(0.01) per share as compared to \$479,913 or \$(0.01) per share for the nine-months December 31, 2006.

LIQUIDITY AND CAPITAL RESOURCES

For the nine-months ended December 31, 2007 net cash used to fund operating activities aggregated \$(569,911), net cash utilized by investing activities aggregated \$(27,161) and net cash provided by financing activities aggregated \$817,622. By way of comparison, for the nine-months ended December 31, 2006, net cash used to fund operating activities aggregated \$(161,047), net cash utilized by investing activities aggregated \$191,316 and net cash provided by financing activities aggregated \$(101,795).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, income taxes and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation 48, "Accounting for Income Tax Uncertainties" ("FIN 48"). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. Recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company expects to adopt the provisions of FIN 48 beginning in the first quarter of 2007. The Company is currently in the process of determining the impact, if any, of adopting the provisions of FIN 48 on its financial position, results of operations and liquidity.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. In particular, disclosures are required to provide information on the extent to which fair value is used to measure assets and liabilities; the inputs used to develop measurements; and the effect of certain of the measurements on earnings (or changes in net assets).

SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption, as of the beginning of an entity's fiscal year, is also permitted, provided interim financial statements have not yet been issued. The Company is currently evaluating the potential impact, if any, that the adoption of SFAS No. 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 allows entities to measure at fair value many financial instruments and certain other assets and liabilities that are not otherwise required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has not determined what impact, if any, that adoption will have on our results of operations, cash flows or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)") and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" ("SFAS 160"). SFAS 141(R) will significantly change current practices regarding business combinations. Among the more significant changes, SFAS 141(R) expands the definition of a business and a business combination; requires the acquirer to recognize the assets acquired, liabilities assumed and noncontrolling interests (including goodwill), measured at fair value at the acquisition date; requires acquisition-related expenses and restructuring costs to be recognized separately from the business combination; requires assets acquired and liabilities assumed from contractual and non-contractual contingencies to be recognized at their acquisition-date fair values with subsequent changes

recognized in earnings; and requires in-process research and development to be capitalized at fair value as an indefinite-lived intangible asset. SFAS 160 will change the accounting and reporting for minority interests, reporting them as equity separate from the parent entity's equity, as well as requiring expanded disclosures. SFAS 141(R) and SFAS 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact that SFAS 141(R) and SFAS 160 will have on its results of operations and financial position.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, income taxes and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Item 3. Controls and Procedures.

Our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) as of a date within 90 days prior to the filing date of this quarterly report and have concluded that our disclosure controls and procedures are adequate.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

a. Exhibit Index

Exhibit Certification of Chief Executive Officer

31.1

Exhibit Certification of Chief Financial Officer (1)

31.2

Exhibit Certification of Chief Executive Officer

32.1

Exhibit Certification of Chief Financial Officer (2)

32.2

(1) Included in Exhibit 31.1

(2) Included in Exhibit 32.1

b. Reports of Form 8-K

On January 15, 2008, we filed a current report on Form 8-K disclosing that we entered into the Debt Restructuring Agreement with Sapphire and Fairhurst.

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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.

ATLANTIC WINE AGENCIES INC.

Date: February 19, 2008

By: /s/ Adam Mauerberger
Adam Mauerberger
President, Chief Financial Officer
and Chairman of the Board