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NUWAY ENERGY INC  
Form 10QSB  
August 20, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2001

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 33-43423

NUWAY ENERGY, INC. AND SUBSIDIARIES

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

DELAWARE

65-0159115

-----  
(State or other jurisdiction  
of incorporation or organization)

-----  
(IRS Employer  
Identification No.)

2000 N.E. 164 Street  
North Miami Beach, Fl 33162

-----  
(Address of principal executive offices)

(305) 945-9300

-----  
(Issuer's telephone 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 requirements for the past 90 days.

Yes

No

Number of shares outstanding of each of the issuer's classes of common equity, as of August \_\_, 2001: \_\_\_\_\_ shares of common stock, \$0.00067 par value per share.

NUWAY ENERGY, INC. AND SUBSIDIARIES

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CONTENTS  
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Accountant's Review Report .....	1
Consolidated Balance Sheets as of June 30, 2001 and December 31, 2000 ....	2
Consolidated Statements of Changes in Stockholders' Equity for the Six months ended June 30, 2001 and Year Ended December 31, 2000 .....	3
Consolidated Statements of Operations for the Three months and Six Months Ended June 30, 2001 and 2000 .....	4
Consolidated Statements of Cash Flows for the Six months Ended June 30, 2001 and 2000 .....	5
Notes to Consolidated Financial Statements as of June 30, 2001 and December 31, 2000 .....	6-13

i

Accountants' Review Report  
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To the Board of Directors

NuWay Energy, Inc. and Subsidiaries

We have reviewed the accompanying consolidated balance sheets of NuWay Energy, Inc. and Subsidiaries as of June 30, 2001, and the related consolidated statements of operations, changes in stockholder's equity and cash flows for the three and six months ended June 30, 2001 and 2000 in accordance with the Statements for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of NuWay Energy, Inc.

A review consists principally of inquires of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The balance sheet for the year ended December 31, 2000 was audited by us and we expressed an unqualified opinion on it in our report dated March 15, 2001, but we have not performed any auditing procedures since that date.

Shubitz Rosenbloom & Co., P.A.

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Miami, Florida  
August 10, 2001

NUWAY ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2001 AND DECEMBER 31, 2000

ASSETS

	June 30, 2001	December 31, 2000
	-----	-----
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,055,992	\$ 4,422,715
Accounts Receivable, Less \$150,000 of Allowance for Doubtful Accounts in 2001 and 2000	1,287,299	1,382,382
Inventory	538,097	539,560
Prepaid Expenses and Other Current Assets	98,511	136,717
	-----	-----
Total Current Assets	5,979,899	6,481,374
	-----	-----
PROPERTY AND EQUIPMENT - NET	3,187,128	3,772,795
	-----	-----
OTHER ASSETS		
Deposits	86,610	11,609
Other Assets	13,450	46,208
	-----	-----
Total Other Assets	100,060	57,817
	-----	-----
TOTAL ASSETS	\$ 9,267,087	\$ 10,311,986
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 523,598	\$ 190,703
Debentures Payable	3,500,000	3,500,000
	-----	-----
Total Current Liabilities	4,023,598	3,690,703
	-----	-----

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COMMITMENTS AND CONTINGENCIES	--	--
Total Liabilities	4,023,598	3,690,703
<hr style="border-top: 1px dashed black;"/>		
STOCKHOLDERS' EQUITY		
Common Stock, \$.00067 Par Value 15,000,000		
Shares Authorized, 4,225,000 Shares Issued		
4,221,600 Shares Outstanding and 3,400 Shares		
held as Treasury Stock		
	2,831	2,831
Additional Paid-In Capital	10,904,437	10,929,437
Cumulative Other Comprehensive Income (Loss)	(510,238)	(560,326)
Retained Earnings (Deficit)	(5,098,306)	(3,745,424)
Treasury Stock, at cost	(5,235)	(5,235)
<hr style="border-top: 1px dashed black;"/>		
Total Stockholders' Equity	5,243,489	6,621,283
<hr style="border-top: 1px dashed black;"/>		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,267,087	\$ 10,311,986
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Read accountants' review report and notes to financial statements.

- 2 -

### NUWAY ENERGY, INC. AND SUBSIDIARIES

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#### CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND

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FOR THE YEAR ENDED DECEMBER 31, 2000

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	Common Stock				
	Number of Shares	Par Value \$.00067	Additional Paid-In Capital	Cumulative Comprehensive Income (Loss)	Retain Earnings (Deficit)
	-----	-----	-----	-----	-----
BALANCE JANUARY 1, 2000	3,300,000	\$ 2,211	\$ 9,919,557	(\$ 415,193)	(\$ 1,620,000)
ADJUSTMENT FOR FOREIGN CURRENCY TRANSLATIONS	--	--	--	(145,133)	
EXERCISE OF STOCK OPTIONS	725,000	486	724,514	--	

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STOCK ISSUED AS COMPENSATION	200,000	134	349,866	--	
COST INCURRED IN REGARD TO PRIVATE PLACEMENT	--	--	(64,500)	--	
NET LOSS FOR THE YEAR ENDED DECEMBER 31, 2000	--	--	--	--	(2,11)
BALANCE DECEMBER 31, 2000	4,225,000	2,831	10,929,437	(560,326)	(3,74)
ADJUSTMENT FOR FOREIGN CURRENCY TRANSLATIONS	--	--	--	89	
COSTS INCURRED IN REGARD TO AN SEC REGISTRATION (FORM S-3)	--	--	(25,000)	--	
NET LOSS FOR THE SIX MONTHS ENDED JUNE 30, 2001	--	--	--	--	(1,35)
BALANCE JUNE 30, 2001	\$ 4,225,000	\$ 2,831	\$ 10,904,437	(\$ 560,237)	(\$ 5,09)

Read accountants review report and notes to financial statements.

- 3 -

NUWAY ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Revenues				
Rental Income	\$ 117,383	\$ 164,344	\$ 265,718	\$ 404,486
Sales of Cigars	37,859	50,931	71,775	75,232
Total Revenues	155,242	215,275	337,493	479,718

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Costs and Expenses	-----	-----	-----	-----
Selling, General & Administration	783,970	534,639	1,286,896	1,062,484
Depreciation	34,239	29,007	50,869	61,854
Costs of Cigar Sales	21,932	44,668	43,316	64,451
	-----	-----	-----	-----
Total Cost and Expenses	840,141	608,314	1,381,081	1,188,789
	-----	-----	-----	-----
Operating Income (Loss)	(684,899)	(393,039)	(1,043,588)	(709,071)
	-----	-----	-----	-----
Interest Income	45,266	15,368	101,777	25,757
Restructuring and Non-Recurring Losses	(152,652)	--	(411,071)	--
	-----	-----	-----	-----
Net Other Income (Expenses)	(107,386)	15,368	(309,294)	25,757
	-----	-----	-----	-----
Income (Loss) Before Income Taxes	(792,285)	(377,671)	( 1,352,882)	(683,314)
Income Taxes (Provision) Benefit	--	--	--	--
	-----	-----	-----	-----
Net Income (Loss)	(\$ 792,285)	(\$ 377,671)	(\$1,352,882)	(\$ 683,314)
	=====	=====	=====	=====
Earnings (Loss) Per Common Share and	-----	-----	-----	-----
Common Share Equivalent - Basic	-----	-----	-----	-----
and Fully Diluted	-----	-----	-----	-----
Common Share Equivalent Outstanding	4,221,600	3,296,600	4,221,600	3,296,600
	=====	=====	=====	=====
Net Income (Loss)	(\$ .19)	(\$ .11)	(\$ .32)	(\$ .21)
	=====	=====	=====	=====

Read accountants' review report and notes to financial statements.

- 4 -

NUWAY ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000

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	2001	2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	(\$1,352,882)	(\$ 683,314)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	50,869	61,854
Reconstructing and Non Recurring Losses		
Changes in Assets - (Increase) Decrease:		
Accounts Receivable	95,083	105,512
Prepaid Expenses and Other Current Assets	38,206	107,771
Inventory of Cigars	1,463	57,646
Changes in Liabilities - Increase (Decrease):		
Accounts Payable and Accrued Expenses	322,896	(16,507)
	-----	-----
Net Cash Provided by (Used In) Operating Activities	(834,365)	(367,038)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in Property and Equipment	534,796	219,093
Other Assets	(42,243)	14,894
Cost Incurred In Regard to a Registration Statement	(25,000)	--
	-----	-----
Net Cash Provided By (Used by) Investing Activities	467,553	233,987
	-----	-----
Effect of Exchange Rate Changes on Cash and Cash Equivalents	89	(133,643)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(366,723)	(266,694)
CASH AND CASH EQUIVALENTS - BEGINNING	4,422,715	800,223
	-----	-----
CASH AND CASH EQUIVALENTS - ENDING	\$ 4,055,992	\$ 533,529
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
-----		
Cash Paid During the Period for:		
Interest	\$ 4,696	\$ 14,592
	=====	=====
Income Taxes, Foreign	\$ --	\$ --
	=====	=====

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Read accountants' review report and notes to financial statements.

- 5 -

## NUWAY ENERGY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2001 AND DECEMBER 31, 2000

#### Note 1. Summary of Significant Accounting Policies

##### A Business and Organization

NuWay Energy, Inc. (formerly Latin American Casinos, Inc.) is a Delaware corporation incorporated on September 19, 1991 (See note 11). In 1994, the company entered in the gaming and casino business, primarily in Peru and other Latin American countries renting casino type slot machines and other gaming equipment.

In 1994, the company formed a Peruvian subsidiary; in 1995, the company formed a Colombian subsidiary and in 1997, the company formed a subsidiary in Nicaragua (which has subsequently been liquidated) that are in the gaming and casino business in Latin America (See Note 9C). The operations include the renting of casino slot machines and other gaming equipment to casino operators. As of June 30, 2001, the company had acquired approximately 8,000 slot machines, approximately 3,000 of which have been acquired for parts and other related equipment, at a total cost of \$3,809,542 including applicable costs for transportation, duty and refurbishing (See note 10).

##### B Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Latin American Casinos Del Peru S.A. (formally known as Latin America Casinos, Inc. S.A.) a Peruvian Corporation and Latin American Casinos of Colombia LTPA, a Colombian Corporation effective September 23, 1997. The company incorporated World's Best Rated Cigar Company (World) as a wholly-owned subsidiary of NuWay Energy, Inc. to distribute quality cigars. It was originally intended that the company would market premium cigars at "off price", and will acquire quality cigars from six South American producers and market them through large retail chains, initially on a consignment basis. The cigar operations have been slower than originally anticipated and as of June 30, 2001, the company had expended approximately \$1,190,000 in regard to the cigar operations. Such expenditures have been included in the accompanying consolidated financial statements as follows:

Cash	\$ 7,000
Accounts Receivable	60,000
Prepaid and Other Current Assets	10,000



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Inventory	538,000
Fixed Assets, Net of Accumulated Depreciation	70,000
Other Assets	3,000
Aggregate Accumulated Deficit	502,000
	-----
Total Investment	\$1,190,000
	=====

In year 2001 the company incorporated NuWay Resource, Inc., a Nevada Corporation and NuWay Resources of Canada, Ltd., a Canadian Company. These corporations are presently inactive and were formed to pursue opportunities in the oil and gas exploration industry (See note 11).

All material intercompany transactions, balance and profits have been eliminated.

Read accountants' review report.

- 6 -

### NUWAY ENERGY, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2001, AND DECEMBER 31, 2000

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### C Property and Equipment

Property and Equipment are stated at cost. Depreciation is provided on accelerated and straight-line methods over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

##### D Revenue Recognition

Revenue is recognized monthly on the rental of slot machines as the slot machines are placed in service.

##### E Statement of Cash Flows

For purposes of this statement, the company considers all liquid

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investments purchased with an original maturity of three months or less to be cash equivalents.

F Income (Loss) Per Common Share  
-----

Basic earnings per common share and common share equivalent were computed by dividing net (loss) by the weighted average number of shares of common stock outstanding during the period. Fully diluted earnings per share was calculated based on the assumption that the increase in the number of common shares assumed outstanding on conversion are reduced by the number of common shares that are assumed to be purchased with the proceeds from the exercise of the incentive stock options. During 2001 and 2000 all warrants, stock options and underwriter's options (Notes 4, 5, 6, 7) were anti-dilutive.

G Significant Concentration of Credit Risk  
-----

The company has concentrated its credit risk for cash by maintaining deposits in banks located within the same geographic region. The maximum loss that would have resulted from risk totaled \$4,052,000 and \$4,320,000 as of June 30, 2001 and December 31, 2000 for the excess of the deposit liabilities reported by the bank over the amounts that would have been covered by federal deposit insurance.

Read accountants' review report.

- 7 -

NUWAY ENERGY, INC. AND SUBSIDIARIES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENT  
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AS OF JUNE 30, 2001 AND DECEMBER 31, 2000  
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Note 1. Summary of Significant Accounting Policies (Continued)  
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H Use of Estimates  
-----

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for uncollectable accounts receivable, obsolescence, equipment depreciation and amortization, taxes, among others.

I Foreign Currency Translation  
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For most international operations, assets and liabilities are

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translated into U.S. dollars at year-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments, resulting from fluctuations in exchange rates are recorded as a separate component of shareholders' equity, as other comprehensive income (loss).

### J Inventories

-----

Inventory of cigars and related material are stated at the lower of average cost or market.

### Note 2. Property and Equipment

-----

Property and Equipment are summarized as follows:

	June 30, 2001	December 31, 2000
	-----	-----
Land & Building (See Note 10)	\$ 75,000	\$ 335,363
Rental Equipment (See Note 10)	3,809,542	4,197,282
Leasehold Improvements	19,894	26,027
Furniture, Fixtures & Office Equipment	182,495	141,914
Transportation Equipment	2,830	48,510
	-----	-----
Total	4,089,761	4,749,096
Less: Accumulated Depreciation	902,633	976,301
	-----	-----
Property and Equipment - Net	\$3,187,120	\$3,772,795
	=====	=====

Included in Rental Equipment is approximately \$3,000,000 of parts and supplies purchased or obtained from other machines previously disassembled for parts

Read accountants' review report.

- 8 -

NUWAY ENERGY, INC. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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AS OF JUNE 30, 2001 AND DECEMBER 31, 2000

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Note 2. Property and Equipment (Continued)

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Included in Rental Equipment is approximately \$3,000,000 of parts and supplies purchase or obtained from other machines previously disassembled for parts.

Rent expense for the three and six months ended June 30, 2001 were \$112,000 and \$92,000, respectively. Included as rental expense for the three and six months ended June 30, 2001 is approximately \$74,000 of rental expenditures incurred at the corporate offices of the Chief Executive officer in California.

The company had leased the land and building it owned in Miami for \$1,200 per month, on a month to month basis. The property was sold in 2001 (See Note 10).

### Note 3. Warrants and Options

-----

At June 30, 2001 the company has outstanding 1,750,000 five year publicly traded warrants to purchase one share of the company's common stock at an exercise price of \$3.00 by December 11, 2001. In December 2000 the board of directors authorized the issuance of an additional 3,500,000 five year stock warrants to acquire common stock at \$1.75 per share (See note 7).

### Note 4. Investment Banker Warrants

-----

Effective June 5, 1998, the company contracted with an investment banker to provide on a non-exclusive basis to the company assistance in possible mergers, acquisitions and internal capital structuring. The duration of the contract is for five years. In consideration for these services, the company granted warrants to purchase an aggregate of 225,000 shares of common stock at the closing bid price of \$1.875 as of June 5, 1998, which can be exercised through June 5, 2003. Effective February 8, 2000, the Board of Directors reduced the exercise price to \$1.06, which was the closing price of the stock at that date (See note 7).

### Note 5. Incentive Stock Option Plan

-----

On June 13, 1994, the Board of Directors adopted the 1994 Stock Option Plan in which the aggregate number of shares for which options may be granted under the Plan shall not exceed 1,000,000 shares. The term of each option shall not exceed ten years from the date of granting (five years of options granted to employees owning more than 10% of the outstanding shares of the voting stock of the company). The 1991 plan became effective on September 30, 1991 and was terminated in March, 1999. The 1994 plan became effective on June 13, 1994 and will terminate in June, 2004, unless terminated earlier by action of the Board of Directors. In December, 1995, the company authorized the issuance under the 1994 Stock Option Plan of 492,500 options at an exercise price of \$2.50 per share to various officers and employees. On March 6, 1997 the company authorized the issuance of an additional 415,000 options at an exercise price of \$2.50 to various officers and employees. In June, 1999, the company increased the shares allocated to the plan to 1,500,000. Effective December 31, 1998, the company ratified the repricing of the employee stock options to \$1.00 per share and simultaneously authorized the issuance of 85,000 options at an exercise price \$1.00 per share and canceled 10,000 options issued in

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1995 at \$2.50 per share. Effective February, 2000 the company issued 35,000 options at an exercise price of \$1.06 and in December, 2000 the company issued 80,000 options at a 1.75 exercise price. (See note 7)

Read accountants' review report.

- 9 -

### NUWAY ENERGY, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2001 AND DECEMBER 31, 2000

#### Note 5. Incentive Stock Option Plan (Continued)

##### Incentive Stock Options Outstanding

	Amount	Price Per Share
	-----	-----
Options Outstanding at January 1, 2000	\$ 932,500	1.00
Additional Options Issued	35,000	1.06
Additional Options Issued	80,000	1.75
Options Lapsed	(85,000)	1.00
Options Exercised	(725,000)	1.00
	-----	
Options Outstanding at December 31, 2000 and June 30, 2001	\$ 237,500	
	=====	

#### Note 6. Debentures

In December 2000 the company, through a Private Placement issued \$3,500,000 principle amount of 6% Convertible Debentures. These Debentures were due June 13, 2001 and were extended to December 13, 2001 and are Convertible into common stock at an exercise price of \$1.75 per share. Included in accounts payable and accrued expenses in the accompanying financial statements is approximately \$122,000 of accrued interest on these disbursements. The interest on these debentures are payable either in cash or in additional shares of common stock, at the discretion of the company (see note 7).

#### Note 7. SEC Registration Statement

In July 2001 the company filed a registration statement with the Securities and Exchange Commission to register 7,229,608 shares of

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common stock of the corporation. These shares represent substantially all the convertible shares outstanding from options, warrants and debentures. In addition, certain shareholders have included in the proposal registration of securities legend stock they currently own. The estimated cost incurred with the registration statement, \$25,000, has been included as a reduction of additional paid-in capital in the accompanying statements.

Note 8. Provision of Income Taxes  
-----

As of June 30, 2001 the company had available for income tax purposes unused net operating loss carryforwards which may provide future tax benefits of \$5,136,000 expiring in the year 2016. No valuation allowance has been provided for unremitted foreign profits.

Note 9. Commitments and Contingencies  
-----

A Litigation  
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The company is a defendant from time to time on claims and lawsuits arising out of the normal course of its business, none of which are expected to have a material adverse effect on its business or operations.

Read accountants' review report.

- 10 -

NUWAY ENERGY, INC. AND SUBSIDIARIES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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AS OF JUNE 30, 2001 AND DECEMBER 31, 2000  
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Note 9. Commitments and Contingencies (Continued)  
-----

B Employment Agreements  
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In January 1997, the company entered into a five year employment agreement with the Chief Executive Officer, Lloyd Lyons, which provided for an annual salary commencing January, 1997 of \$275,000. The agreement provided that in the event of either a merger, consolidation, sale or conveyance of substantially all the assets of the company which results in his discharge, he would be entitled to 200% of the balance of payments remaining under the contract. The contract provided for the salary continuation for a period of two years after the death of Mr. Lyons. In January 2000, Mr. Lyons passed away and effective August 2, 2000 the company amended it's employment contract with his surviving widow and primary beneficiary of his Estate where-in the salary continuation clause included in his contract was replaced with a severance arrangement which requires the company to pay the spouse

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\$100,000 over a one year period commencing on the first month following her termination from her employment with the company and upon her termination she is to receive 100,000 shares of common stock pursuant to an amendment to her employment agreement. The amended employment agreement will obligate the company to register these shares and reimburse her for the difference in the gross proceeds upon the sale of such shares and \$300,000, regardless of the time she holds such shares. The agreement further provides that the spouse remain in the employment of the company for at least 4 months following the amendment of the contract. The contract revisions further provided that Mr. Lyons loan of \$115,000 be off-set by the accrued compensation as required by the officer compensation agreement. The employment agreement with the spouse remains intact in all other regards and obligates the company to provide an annual compensation at the rate of \$46,800 per anum in the year 2000 and \$51,480 in the subsequent year.

In January 2000 the company entered into two additional employment contracts, with the company president and the officer in charge of Latin American Operations, both for the duration of two years and provides that company be obligated for an aggregate compensation of \$115,000 in year 2000 and \$126,500 in year 2001. Effective August 2, 2000 both of these employment contracts were amended to reflect upon termination from employment these individuals would also be entitled to nine months of compensation and will receive in the aggregate 35,000 shares of common stock which the company has agreed to reimburse the respective employees the difference between the gross proceeds they receive upon sale and \$105,000, regardless of the term the employees hold such shares.

The company entered into two additional one-year employment agreements with the Chief Operating Officer and the Chief Executive Officer, requiring the company issue 100,000 shares of stock and 750,000 warrants to purchase additional common stock at \$1.75 per share, individually. The distribution of the stock was considered compensation in the year 2000.

Read accountants' review report.

- 11 -

NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2001 AND DECEMBER 31, 2000

Note 9. Commitments and Contingencies (Continued)

C Foreign Assets

The accompanying consolidated balance sheets includes assets relating to the company's slot machine rental operations in Peru and Colombia of \$3,246,000 and \$979,000 respectively. Although these countries are considered politically and economically stable, it is possible that

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unanticipated events in foreign countries could disrupt the company's operations. In that regard, the company was informed that in Peru an excise tax has been instituted effective October 1, 1996, on the leases of gaming equipment. The company with others in the industry negotiated with the appropriate governmental agencies and have had the excise tax significantly curtailed. In addition, a significant portion of the company's inventory in cigars is being stored in South America awaiting instructions to deliver them to the Miami location.

D Lease Commitment

-----

The company is obligated for a three year lease for its Miami office premise, which expires in September, 2001 and requires monthly rent of \$2,500. In addition, the company is obligated for a two year lease for it's warehouse space, at a monthly rent of \$1,400. The company is also obligated for an office lease at its California facility. This lease requires monthly rentals of \$7,670 through March 2002. All other leases are of short duration or are on a month to month arrangement.

Note 10. Restructuring Losses And Non-Recurring Losses

-----

In March 2001, the company sold it's Miami property for an aggregate consideration of \$139,000 and recorded a net loss on disposition of \$64,000. In addition the company recorded a reduction in value for certain slot machine parts of \$194,000 and recorded gaming equipment impairment cost of \$100,000.

In February, 2001 the company announced that it had entered into a non binding letter of intent to merge with Digital Convergence Corporation, a privately held California company. The merger agreement had been rescinded in May, 2001 and the company recorded \$52,000 as part of the non-recurring expenses.

Read accountants' review report

- 12 -

NUWAY ENERGY, INC. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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AS OF JUNE 30, 2001 AND DECEMBER 31, 2000

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Note 11. Subsequent Event

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In August 2001 Latin American Casinos, Inc., changed it's name to NuWay Energy, Inc. The stock symbol will be changed to NuWay and will commence trading with the new symbol on August 15, 2001. The name change reflects a new direction that the company will be exploring. The company anticipates it will enter the oil and gas industries in Canada via the formation of subsidiaries in Alberta Canada and Nevada U.S. and other potential acquisitions in the energy field without disturbing its current business operations.



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In August 2001 the company entered into an eighteen month consulting arrangement for financial advisory services and the introductions of investors and investment banking firms to the company. In consideration for these services the company is obligated to issue 50,000 shares of restricted common stock, to be issued pro-rata over the terms of the contract, 150,000 warrants to be issued pro-rata over the term of the contract and \$60,000 per month for the duration of the contract. The warrants will be valued at an exercise price of 110% of the closing sales price of the company's common stock during the five consecutive trading days immediately preceding the date of the agreement and will provide for equal monthly vesting over the duration of the contract. The agreement may be terminated by either party for "just cause" or by thirty day written notice.

Read accountants' review report.

- 13 -

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

#### General

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In August 2001 Latin American Casinos, Inc., changed its name to NuWay Energy, Inc. The name change reflects a new direction that the company will be exploring. The Company anticipates it will enter the oil and gas industries in Canada via the formation of subsidiaries in Alberta Canada and Nevada U.S. and other potential acquisitions in the energy field without disturbing its current business operations.

Since January 1995, the Company has been engaged in the renting of slot machines and other gaming equipment to licensed gaming establishments in various cities through its wholly owned subsidiaries in South and Central America. In 1994, the Company formed its Peruvian subsidiary in late 1995 the Company formed its Colombian subsidiary.

As of June 30, 2001, the Company had approximately 900 machines under rental contracts in Peru and Colombia.

The Company currently concentrates its efforts on the rental of used slot machines. These machines were purchased at a fraction of the cost of new machines and are refurbished for use in South and Central America. Whereas a new slot machine would cost approximately \$10,000 plus additional charges for duty, the used slot machines cost approximately \$600 each including freight, duty, and refurbishing expenditures.

In September 1997, the Company incorporated World's Best Rated Cigar Company, as a wholly owned subsidiary, to distribute premium cigars. It was originally intended that the company would acquire quality cigars from six manufacturers and market them at "off price" through large retail chains. In February 2000, the marketing strategy was modified to include selling directly to consumers through our web site, [www.worldsbestrated.com](http://www.worldsbestrated.com), and our toll free number.

In 2001 the Company formed two subsidiaries, NuWay Resources, Inc., a Nevada Corporation and NuWay Resources of Canada, Ltd., a Canadian company. These corporations are presently inactive and were formed to pursue opportunities in the oil and gas exploration industry.

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### Results of Operations

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Revenues from the rental of slot machines in Peru and Colombia for the three months ended June 30, 2001 decreased by \$47,000 or 29%, to \$117,400 from \$164,300 for the same period in 2000. The Company's revenues from cigar sales were \$37,900 in the second quarter of 2001 as compared to sales of \$51,000 for the same period in 2000.

- 14 -

Revenues from the rental of slot machines in Peru and Colombia for the six months ended June 30, 2001 decreased by \$138,800 or 34%, to \$265,700 from \$404,500 for the comparable period in 2000. The Company's revenues from cigar sales were \$71,800 for the six months ended June 30, 2001 as compared to sales of \$75,200 for the same period in 2000.

The decrease in revenues was the overall weakness of the economy in South America. Additionally, the decrease was due in part to continued concerns over government-mandated obsolescence, political changes, increased competition as well as the devaluation of foreign currency.

Selling, general, and administrative expenses incurred in the quarter ended June 30, 2001 increased \$249,300 or 47%, to \$783,900 from \$534,600 for the same period in 2000. Selling, general, and administrative expenses incurred for the six months ended June 30, 2001 increased \$224,400 or 21%, to \$1,286,900 from \$1,062,500 for the same period in 2000.

These expenses are due in part to the increased cost of servicing the older machines, as well as fees and costs associated with exploring new ventures and acquisitions.

Net (loss) for the three months ended June 30, 2001 was (\$792,300) or (\$0.19) per share compared to (\$377,700) loss or (\$0.11) per share for the same period in 2000. Net (loss) for the six months ended June 30, 2001 was (\$1,352,800) or (\$0.32) per share compared to (\$683,300) or \$0.21 per share for the same period in 2000.

The net loss was attributable to the significant decline in revenues from slot machine operations and an increase in overhead expenditures, costs associated with exploring new ventures and acquisitions, as well as certain non-recurring expenses for the rescinded merger and asset impairments.

Through June 30, 2001 the Company expended approximately \$1,190,000 on the establishment of a premium cigar business; minor additional expenditures for marketing and personnel are expected throughout the year 2001. No additional costs associated with acquisitions of new cigars and related inventory occurred in year 2001. In 2001 an insignificant amount was spent to acquire additional inventory.

### Liquidity and Capital Resources

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Cash and cash equivalents decreased approximately \$366,700 or 8%, to \$4,056,000 at June 30, 2001 from \$4,422,700 at December 31, 2000. The decrease is attributable primarily to the poor results of operations and the increase in overhead expenditures.

The Company anticipates that its cash flow from operations and interest

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earned on cash equivalents will be sufficient to meet its cash needs for the next twelve months. The Company does not have any commitments for material capital expenditures.

- 15 -

### Forward Looking Statements

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From time to time, the Company may publish forward looking statements relating to such matters as anticipated financial performance, business prospects, new products and certain other matters. The words "may", "will", "expect", "anticipate", "continue", "estimate", "project", "intend" and similar expressions are intended to identify such forward looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safeharbor, the Company notes that a variety of factors could cause its actual results and experience to differ materially from anticipated results and other expectations that may effect the operations, performance, development and results of the Company's business, including the following:

1. Changes in government regulations of gaming, tobacco, and oil and gas exploration could have an effect on the Company's operations and business.
2. Political factors affecting Canada, and South and Central America, particularly as they pertain to currency valuation, could affect the Company's business in ways, which are difficult to predict.
3. The Company's proposed venture into oil and gas exploration is subject to all the risks and uncertainties associated with the commencement of a new enterprise. There can be no assurances that the Company will be able to successfully penetrate the market, or that this operation will become profitable.
4. The Company may be required to raise additional funds to expand its business operations, particularly the Company's proposed venture into oil and gas exploration, if it proves successful. There can be no assurances that the Company will be able to raise such funds, either through the sale of equity or debt securities or through commercial sources. The inability to acquire needed capital could have a material adverse effect on the Company's ability to expand.

Pursuant to the requirements of the Securities and Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NuWay Energy, Inc.

Date: August 20, 2001

/s/ JEFFREY A. FELDER

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Jeffrey A. Felder  
President

Date: August 20, 2001

/s/ GERALDINE LYONS

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Geraldine Lyons

