

EUROPEAN MICRO HOLDINGS INC
Form 10KSB
October 12, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

For the Fiscal Year Ended June 30, 2001

OR

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

Commission File No. 0-23949

EUROPEAN MICRO HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction
of Incorporation or Organization)

65-0803752
(I.R.S. Employer Identification Number)

450 Fairway Drive, Suite 105, Deerfield Beach,
Florida
(Address of Principal Executive Offices)

33441
(Zip Code)

Registrant's telephone number, including area code (954) 596-0249

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the voting common stock held by non-affiliates of the Registrant on [July 31, 2006] was \$46,478 based on the average bid and asked prices on such date of \$0.03.

The Registrant had 5,029,667 shares of Common Stock, par value \$0.01 per share, outstanding on [July 31, 2006].

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

ITEM 1.DESCRPTION OF BUSINESS.

GENERAL DESCRIPTION OF BUSINESS

Forward-Looking Statements and Associated Risks. This filing contains forward-looking statements, including statements regarding European Micro Holdings, Inc.'s ("European Micro" or the "Company") projections on the amount and timing of liquidating distribution. In addition, when used in this filing, the words "believes," "anticipates," "intends," "anticipation of," "expects," and similar words are intended to identify certain forward-looking statements. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, many of which are beyond the Company's control. Actual results could differ materially from these forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. The Company does not undertake any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

Unless the context otherwise requires and except as otherwise specified, references herein to "European Micro" or the "Company" include European Micro Holdings, Inc. and its five wholly-owned subsidiaries, European Micro Plc, a company organized under the laws of the United Kingdom ("European Micro UK"), Nor'Easter Micro, Inc., a Nevada corporation ("Nor'Easter"), Colchester Enterprise Pte. Ltd., a company organized under the laws of Singapore ("Colchester"), American Micro Computer Center, Inc., a Florida corporation ("American Micro"), Engenis.com Ltd., a company organized under the laws of the United Kingdom ("Engenis"), (collectively, the five wholly-owned subsidiaries are referred to as the "Subsidiaries").

Overview

The Company was an independent distributor of microcomputer products, including personal computers, memory modules, disc drives and networking products, to customers mainly in Western Europe and to customers and related parties in the United States and Asia. The Company's customers consisted of value-added resellers, corporate resellers, retailers, direct marketers and distributors. The Company generally did not sell to end-users. The Company monitored the geographic pricing strategies related to such products, currency fluctuations and product availability in an attempt to obtain inventory at favorable prices from other distributors, resellers and wholesalers.

As described in more detail below, during July, 2001 the management approved a plan for the liquidation and eventual sale or dissolution of the Company. Accordingly, we are engaged in an ongoing orderly liquidation of our assets.

European Micro Holdings, Inc. was organized under the laws of the State of Nevada in December 1997 and is the parent of European Micro UK and Nor'Easter. European Micro Holdings, Inc. was formerly the parent of Colchester, American Micro and Engenis. European Micro UK was organized under the laws of the United Kingdom in 1991 to serve as an independent distributor of microcomputer products to customers mainly in Western Europe and to related parties in the United States. Nor'Easter was organized under the laws of the State of Nevada on December 26, 1997 to serve as an independent distributor of microcomputer products in the United States. Colchester was organized under the laws of Singapore in November 1998 to serve as an independent distributor of microcomputer products in Asia. American Micro was organized under the laws of the State of Florida on June 24, 1999 to acquire AMCC and to serve as an independent distributor of microcomputer products in the United States. Premier Pages, Ltd. was formed on January 28, 2000 and later changed their name to Engenis.com Ltd on June 23, 2000. Engenis.com Ltd. was formed under the laws of the United Kingdom to serve as a business-to-business electronic commerce trading company.

European Micro UK was formerly the parent of European Micro GmbH ("European Micro Germany"), Sunbelt and European Micro B.V. ("European Micro Holland") and has a 50% joint venture interest in Big Blue Europe, B.V. ("Big Blue Europe"). European Micro Germany was organized under the laws of Germany in 1993 and operates as a sales office in Düsseldorf, Germany. As of August 2000, the Company closed the sales operations of European Micro Germany. Sunbelt was a company registered in England and Wales, which was established in 1992 and based in Wimbledon, England. Sunbelt operated as a distributor of microcomputer products to dealers, value-added resellers and mass merchants throughout Western Europe. Except for the distribution of its Nova brand products (which was discontinued effective January 2000), Sunbelt's distribution operations were integrated with and into the operations of European Micro UK. European Micro Holland was organized under the laws of Holland in 1995, and operated as a sales office near Amsterdam, Holland. Big Blue Europe was organized under the laws of Holland in January 1997 and was a computer parts distributor with offices located near Amsterdam, Holland, selling primarily to computer maintenance companies. Big Blue Europe has no affiliation with International Business Machines Corporation.

European Micro Holding's headquarters are located at 450 Fairway Drive, Suite 105, Deerfield Beach, Florida 33441, and its telephone number is (954) 596-0249.

Industry

The microcomputer products industry had grown significantly in the late 1990's, primarily due to increasing worldwide demand for computer products and the use of distribution channels by manufacturers for the distribution of products. There are two traditional distribution channels in the microcomputer industry: (i) those that sell directly to end-users ("resellers") and (ii) those that sell to resellers ("distributors"). Distributors generally purchase a wide range of products in bulk directly from manufacturers and then ship products in smaller quantities to many different types of resellers, which typically include dealers, value-added resellers, system integrators, mail order resellers, computer products superstores and mass merchants. European Micro was an independent distributor and generally did not purchase products directly from manufacturers but purchased from other distributors.

Most manufacturers have implemented direct sales business models and reduced the number of distributors to which they distribute product. These efforts have been facilitated by the use of the Internet, among other things, and reduced the availability of products in the surplus or after-market. The Company had historically relied upon the surplus or after-market to obtain products for resale. In anticipation of these trends continuing for the foreseeable future, and the liquidity problems faced by the Company, the Board approved a plan of liquidation.

Strategy

The Company's objectives are to proceed with an orderly liquidation of all assets. On September 1, 2001 the notes payable to the former American Micro shareholders were settled by transfer of all American Micro shares from European Micro Holdings to the former American Micro shareholders. The Company has to date liquidated Nor'Easter, Colchester and European Micro UK.

Products and Customers

The Company's sales consisted of computer hardware products, such as personal computers, memory modules, disc drives and networking products, which were sold to value-added resellers, corporate resellers, retailers, direct marketers and distributors. The Company's customers typically relied on distributors as their principal source of microcomputer products.

The Company typically purchased its products from distributors and other suppliers in large quantities. As a focused distributor, the Company focused on a limited and select group of products from a limited and select group of high quality manufacturers. As a result, the Company carried fewer individual products from fewer manufacturers than broadline distributors. The Company financed a significant portion of its total sales by extending trade credit. The Company attempted to minimize the risk of such credit by, among other things, monitoring the credit worthiness of its customers and insuring some of its accounts receivable. European Micro UK had sought to insure substantially all of its accounts receivable. Nor'Easter, Colchester and American Micro generally did not insure their accounts receivable.

The Company's operations involved a single industry segment, the distribution of microcomputer products. Historically, the Company operated in one geographic area—the United Kingdom—and exported products from the United Kingdom to other European countries and to related parties in the United States. With the addition of Nor'Easter and American Micro in the United States, and the addition of Colchester in Singapore, the Company's sales to third parties in the United States and Asia increased.

The Company's net sales from operations outside the United States were primarily denominated in currencies other than United States dollar. Accordingly, the Company's operations outside the United States imposed risks upon its business as a result of exchange rate fluctuations.

Sources of Supply

The Company obtained its products from distributors and other suppliers throughout the world in an attempt to obtain products at favorable prices while also maintaining continuity of supply. The Company generally made its purchases based on the most favorable combination of prices, quantities and product selection, and therefore its suppliers were constantly changing. The Company did not generally obtain products directly from manufacturers and generally did not enter into any long-term or distribution agreements with its suppliers. In some cases suppliers were also customers.

Suppliers delivered products against purchase orders tendered by the Company. The Company often requested specific delivery dates in its purchase orders and lead times for delivery from suppliers are typically short. Delivery was, however, subject to availability. From time to time the Company experienced delivery delays and inventory shortages.

Sales and Marketing

In order to address the individual customs, practices and business conventions in the countries in which the Company operated, the Company employed a sales staff conversant in Chinese, Dutch, English, French, German, Italian and Spanish and with a general knowledge of the applicable markets. Oversight and strategic direction were provided by senior management of the Company.

Sales. The Company marketed its products to distributors and resellers, not end-users. The Company's customers typically placed orders through a sales representative

Marketing. The Company's marketing department monitored and evaluated national market trends, price movements and changes in product specifications. It was also responsible for developing and implementing the Company's advertising programs.

Competition

The Company operated in an industry which is characterized by intense competition based on price, product availability and delivery times. Its competitors included manufacturers and international distributors. Some competitors had greater financial and administrative resources than the Company.

Intellectual Property

The Company was attempting to build a brand name in the microcomputer industry. To that end, the Company had applied for trademark protection both in the United Kingdom and within the European Community. The following is a summary of the trademarks which the Company has applied for:

Trademark	Class(1)	No.	Applicant	Date of Filing	Comments
European Micro	9	438689	European Micro UK	12-23-96	U.K. Trademark granted
European Micro [Plc] & Logo	9	2119204	European Micro UK	12-20-96	U.K. Trademark granted
Premier Dealers Club & Logo	9	2152310	European Micro UK	11-29-97	U.K. Trademark granted

(1) Class 9 covers computer software, computer peripherals, parts and accessories for all such goods.

Employees

On July 31, 2006 the Company had three employees.

ITEM 2.DESCRPTION OF PROPERTIES.

The corporate headquarters of European Micro Holdings, Inc. is located in Deerfield Beach, Florida. Approximately 350 square feet was dedicated to management offices.

European Micro's facilities as of June 30, 2001 are described below:

Location	Square Feet	Lease Expiration
Manchester, UK(warehouse)(1)	8,000	2002
Manchester, UK (offices)(1)	7,734	N/A
Düsseldorf, Germany (offices)(2)	1,360	2005
Amsterdam, Netherlands (offices and warehouse)(3)	18,000	2002
Singapore (office)(4)	500	2001
Miami, Florida (offices and warehouse)(5 & 6)	6,500	2002
Nashville, Tennessee (offices)(6)	350	2001
Wimbledon, UK (offices and warehouse)(7)	5,813	2008
Portsmouth, New Hampshire (offices and warehouse)(8)	7,700	2005

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- | | |
|-----|--|
| (1) | European Micro UK |
| (2) | European Micro Germany |
| (3) | European Micro Holland & Big Blue Europe 50% Joint Venture |
| (4) | Colchester |
| (5) | American Micro |
| (6) | European Micro Holdings, Inc. |
| (7) | Sunbelt |
| (8) | Nor'Easter |

During the liquidation process, all leased properties have been vacated and the lease expired or a settlement was reached with the lessor.

On July 16, 1999, European Micro UK purchased the office building in which they had previously been leasing space for 1,705,000 pounds sterling (\$2,405,000 at June 30, 2001). The purchase price was financed in part by a loan in the amount of 1,312,000 pounds sterling (\$1,851,000 at June 30, 2001) at an annual interest rate of 7.6%, payable over ten years. The total square footage of the building was 11,603, of which approximately one-fourth of the building was being leased to unrelated third parties at June 30, 2001. European Micro UK sold the office building effective March 31, 2002 for 1,510,000 pounds sterling (\$2,143,000 at March 31, 2002). The proceeds were released from escrow on April 5, 2002, at which time the mortgage loan note secured by the office building plus accrued interest was paid in full in the amount of 1,102,000 pounds sterling (\$1,573,000 at April 6, 2002). The remaining proceeds of 369,000 pounds sterling (\$527,000 at April 6, 2002), after commissions and legal fees of 39,000 pounds sterling, were paid down on the related party note payable to Harry Shields.

ITEM 3. LEGAL PROCEEDINGS.

On November 12, 1999, Jeffrey and Marie Alnwick (the “Alnwick”) and a New York corporation, Big Blue Products, commenced an action individually and derivatively for the Dutch company, Big Blue Europe, against the Company and its founders and officers, John B. Gallagher and Harry D. Shields in the United States District Court, Eastern District of New York, Jeffrey Alnwick and Marie Alnwick v. European Micro Holdings, Inc., Eastern District of New York, Docket No. 99 CV 7380 (the “Alnwick Litigation”).

In October 2003, the Company and its affiliated defendants entered into a settlement agreement whereby the plaintiffs discontinued the litigation and released all claims against the defendants. The parties bore their own legal costs and expenses and exchanged mutual releases.

In January 2001, Nor'Easter sued Arlington Computer Products, Inc. ("Arlington") in the Superior Court of Rockingham County, New Hampshire, for breach of an agreement to pay for the purchase of laptop computers. Nor'Easter subsequently sued Arlington in the Circuit Court of Lake County, Illinois, to enforce a judgment obtained in the New Hampshire Litigation. In addition, Arlington sued Nor'Easter in the United States District Court for the Northern District of Illinois for breach of an agreement to sell Compaq computer memory modules. Nor'Easter filed a third party complaint in the Federal Litigation against Origin Micro, Inc. ("Origin") for breach of an agreement to sell Compaq computer memory modules.

In June 2002, Nor'Easter and Arlington entered into a settlement agreement whereby Arlington paid Nor'Easter the sum of \$52,556 and both parties discontinued the litigation and released all claims against each other. In July 2002, Nor'Easter and Origin entered into a settlement agreement whereby Origin paid Nor'Easter the sum of \$49,000 and both parties discontinued the litigation and released all claims.

In December 2001, a former shareholder of Sunbelt served a statutory demand upon European Micro Plc in the sum of 92,710 pounds sterling. This sum was subsequently reduced to 73,940 pounds sterling. On April 19, 2002 Judge Kershaw QC granted the European Micro Plc an injunction preventing the former shareholder from presenting a petition in this sum based upon the statutory demand. On July 31, 2002 the Court of Appeal dismissed European Micro Plc's claim and ordered the costs to be paid. In August 2003, the debt plus costs and interest owed the former shareholder of Sunbelt was assigned to Harry Shields, a shareholder of European Micro Holdings, Inc., for the sum of 107,000 pounds sterling.

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

None.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

The Company's shares of Common Stock began trading on the Nasdaq National Market on June 12, 1998, under the symbol "EMCC." On April 20, 2001, the Company received a Nasdaq Staff Determination Letter stating that the Company's common stock failed to maintain a minimum market value of public float of \$5.0 million. As a result, the Company's common stock was delisted from the Nasdaq Stock Market on April 27, 2001. The Company's common stock is now quoted on the pink sheets. In the chart below all quarterly high and low figures are from the Nasdaq Stock Market except for the fourth quarter (April 2001 to June 2001), which is from the Over-the-Counter Bulletin Board and the quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

The Company's high and low bid prices by quarter during fiscal 2001 and 2000 are presented as follows:

	Fiscal Year 2001			
		High		Low
First Quarter (July 2000 to September 2000)	\$	9.125	\$	3.00
Second Quarter (October 2000 to December 2000)		6.00		1.0625
Third Quarter (January 2001 to March 2001)		3.625		0.84
Fourth Quarter (April 2001 to June 2001)		1.1		0.10

	Fiscal Year 2000			
		High		Low
First Quarter (July 1999 to September 1999)	\$	10.25	\$	6.50
Second Quarter (October 1999 to December 1999)		8.875		4.031
Third Quarter (January 2000 to March 2000)		16.50		5.00
Fourth Quarter (April 2000 to June 2000)		11.625		2.50

On July 31, 2006, the Company had approximately 117 shareholders of record.

Dividends

During the fiscal years ended June 30, 2001 and 2000, no dividends were declared or paid. The Company declared a dividend in the aggregate amount of \$200,000 on the outstanding shares of Common Stock of record as of August 1, 2005. The dividend was paid on September 1, 2005. The Company currently intends to proceed with the orderly liquidation of its assets.

Recent Sales of Unregistered Securities

None.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following information should be read in conjunction with the consolidated financial statements of the Company and the notes thereto appearing elsewhere in this filing.

Certain statements within this Item and throughout this Annual Report on Form 10-KSB and the documents incorporated herein are “forward-looking statements” as described in the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks and uncertainties and actual results could differ materially from those projected.

Critical Accounting Estimates

The following is a discussion of the accounting estimates that we believe (1) are most important to the portrayal of our financial condition and results of operations and (2) require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue and Expense Recognition

Revenues are recognized at the time the goods are shipped. Revenues from related parties are recognized when the products are sold by the related parties to third parties. Discount and customer rebates are deducted from sales revenue when earned. Costs of goods sold include material and freight costs. Selling, general and administrative costs are charged to expense as incurred.

Impairment of Long-Lived Assets

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 20 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved. The Company recognized an impairment of goodwill and intangible assets of \$4,387,000, for the year ended June 30, 2001.

Years Ended June 30, 2001 and 2000

Total Net Sales. Total net sales decreased \$21.4 million, or 18.5%, from \$115.5 million in the year ended June 30, 2000 to \$94.1 million in the comparable period in 2001. Excluding net sales to related parties, net sales decreased \$19.2 million, or 17%, from \$113.1 million in the year ended June 30, 2000 to \$93.9 million in the comparable period in 2001. This decrease was attributable to a reduction of \$13 million from European Micro UK's sales, a reduction of \$2.0 million in Nor'Easter's sales, a reduction of \$2.0 million in Colchester's sales and a reduction of \$2.2 million in American Micro's sales. The decrease in sales is a result of lower quantities of product available in the surplus or aftermarket supply channel and the closure of Nor'Easter's operations in April 2001. Due to liquidity problems, operations at European Micro UK and Colchester were terminated during the first half of fiscal 2002. In addition, American Micro was transferred back to its original shareholders on September 1, 2001, in settlement of notes payable. As a result of these closures and transfers, the Company ceased generating revenue during the first half of fiscal 2002.

Net sales to related parties decreased \$2.2 million from \$2.4 million in the year ended June 30, 2000 to \$213,000 in the comparable period in 2001. This decrease is attributable to sales to Technology Express decreasing as product

availability decreased.

Gross Profit. Gross profit decreased \$3.4 million or 29.7%, from \$11.4 million in the year ended June 30, 2000 to \$8.0 million in the comparable period in 2001. Gross profit excluding related party transactions decreased \$3.3 million or 29.5%, from \$11.3 million in the year ended June 30, 2000 to \$8.0 million in the comparable period in 2001. This decrease is primarily due to lower sales volume accompanied with lower margins and inventory write-off due to the closing of Nor'Easter Micro.

Gross margins decreased from 9.8% in the year ended June 30, 2000 to 8.5% in the comparable period in 2001. This decrease is primarily due to lower selling prices and gross margin on most products during the fiscal year.

Operating Expenses. Operating expenses as a percentage of total net sales increased from 12.2% in the year ended June 30, 2000 to 17% in the comparable period in 2001. This increase was the result of a decrease in total net sales and increases in operating expenses, primarily caused by the legal expenses incurred by the Company in connection with the Big Blue lawsuit and the write-off of goodwill related to the Sunbelt and American Micro acquisitions.

Interest Expense. Interest expense increased by \$119,000 from \$964,000 in the year ended June 30, 2000 to \$1.1 million in the comparable period in 2001. This was attributable to increased borrowings during the period because of increased average accounts receivable and inventory balances, the purchase of the office building and the acquisitions of Sunbelt and AMCC.

Interest in Unconsolidated Subsidiary. Due to the continued uncertainty of the outcome of the lawsuit and the difficulties of managing operations of Big Blue Europe during the dispute, the Company recorded during the three-month period ended September 30, 2000 an additional \$252,000 provision for doubtful accounts related to the notes receivable owed to the Company. During December 2000, the Company and the Alnwicks entered into a liquidation agreement in which Big Blue Europe would cease operations and liquidate all assets and liabilities. As of December 31, 2000, all operations ceased and a liquidator was appointed by the court. As part of the liquidation the Company and the Alnwicks had both advanced \$85,000 to the liquidator. As of June 30, 2001, the Company believes the \$85,000 that was advanced will not be recovered and, therefore, a valuation allowance was established for the \$85,000.

Income Taxes. The Company recorded a tax benefit related to the losses at European Micro UK, however the Company has not accrued a tax benefit for operating losses in the United States or Singapore as realization is not considered more likely than not.

Recent Accounting Pronouncements

Derivative instruments

SFAS No. 133, "Accounting for Derivate Instruments and Hedging Activities," was issued in June 1998 and as amended by SFAS No. 137, is effective for fiscal years beginning after June 15, 2000. SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities", an amendment of FASB No. 135, was issued June 2000. These statements have been adopted effective July 1, 2000, but have not materially impacted the Company's consolidated financial statements. These standards establish accounting and reporting standards for derivative instruments and hedging activities.

Consolidation of Variable Interest Entities

In January 2003, (as revised in December 2003) The Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements". Interpretation No. 46 addresses consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics: (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated support from other parties, which is provided through other interest that will absorb some or all of the expected losses of the entity; (ii) the equity investors lack one or more of the following essential characteristics of a controlling financial interest: the direct or indirect ability to make decisions about the entities activities through voting rights or similar rights; or the obligation to absorb the expected losses of the entity if they occur, which makes it possible for the entity to finance its activities; the right to receive the expected residual returns of the entity if they occur, which is the

compensation for the risk of absorbing the expected losses.

Interpretation No. 46, as revised, also requires expanded disclosures by the primary beneficiary (as defined) of a variable interest entity and by an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary.

Interpretation No. 46, as revised, applies to small business issuers no later than the end of the first reporting period that ends after December 15, 2004. This effective date includes those entities to which Interpretation 46 had previously been applied. However, prior to the required application of Interpretation No. 46, a public entity that is a small business issuer shall apply Interpretation 46 or this Interpretation to those entities that are considered to be special-purpose entities no later than as of the end of the first reporting period that ends after December 15, 2003

Interpretation No. 46 may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. This interpretation has not been retroactively applied to the June 30, 2001 Consolidated Financial Statements.

In June 2003, the FASB issued an Exposure Draft for proposed SFAS entitled "Qualifying Special Purpose Entities ("QSPE") and Isolation of transferred Assets", an amendment of SFAS No. 140 ("The Exposure Draft"). The Exposure Draft is a proposal that is subject to change and as such, is not yet authoritative. If the proposal is enacted in its current form, it will amend and clarify SFAS 140. The Exposure Draft would prohibit an entity from being a QSPE if it enters into an agreement that obliged a transferor of financial assets, its affiliates, or its agents to deliver additional cash or other assets to fulfill the special-purposes entity's obligation to beneficial interest holders.

Business Combinations

Statement No. 141, "Business Combinations" supersedes APB Opinion 16 and various related pronouncements. Pursuant to the new guidance in Statement No. 141, all business combinations must be accounted for under the purchase method of accounting; the pooling-of-interests method is no longer permitted. SFAS 141 also establishes new rules concerning the recognition of goodwill and other intangible assets arising in a purchase business combination and requires disclosure of more information concerning a business combination in the period in which it is completed. This statement is generally effective for business combinations initiated on or after July 1, 2001.

Goodwill and Other Intangible Assets

Statement No. 142, "Goodwill and Other Intangible Assets" supercedes APB Opinion 17 and related interpretations. Statement No. 142 establishes new rules on accounting for the acquisition of intangible assets not acquired in a business combination and the manner in which goodwill and all other intangibles should be accounted for subsequent to their initial recognition in a business combination accounted for under SFAS No. 141. Under SFAS No. 142, intangible assets should be recorded at fair value. Intangible assets with finite useful lives should be amortized over such period and those with indefinite lives should not be amortized. All intangible assets being amortized as well as those that are not, are both subject to review for potential impairment under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS No. 142 also requires that goodwill arising in a business combination should not be amortized but is subject to impairment testing at the reporting unit level to which the goodwill was assigned to at the date of the business combination.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and must be applied as of the beginning of such year to all goodwill and other intangible assets that have already been recorded in the balance sheet as of the first day in which SFAS No. 142 is initially applied, regardless of when such assets were acquired. Goodwill acquired in a business combination whose acquisition date is on or after July 1, 2001, should not be amortized, but should be reviewed for impairment pursuant to SFAS No. 121, even though SFAS No. 142 has not yet been adopted. However, previously acquired goodwill should continue to be amortized until SFAS No. 142 is first adopted. The Company has

recognized impairment of 100% of the goodwill from its acquisitions as of June 30, 2001. See Note 6 for details.

Accounting for Asset Retirement Obligations

Statement No. 143 "Accounting for Asset Retirement Obligations" establishes standards for the initial measurement and subsequent accounting for obligations associated with the sale, abandonment, or other type of disposal of long-lived tangible assets arising from the acquisition, construction, or development and/or normal operation of such assets. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged.

Accounting for the Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". The provisions of the statement are effective for financial statements issued for the fiscal years beginning after December 15, 2001. The Company has impaired long lived assets as of June 30, 2001 per the provisions established by SFAS 144. See Note 5 for details.

Debt extinguishments

In April 2002, the FASB issued SFAS 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS 145 related to classification of debt extinguishments are effective for fiscal years beginning after May 15, 2002. Earlier application is encouraged. The Company has not adopted early application of this standard and does not believe that early adoption would have a material effect on these financial statements.

Accounting for Restructuring Costs

In July 2002, the FASB issued SFAS No. 146, "Accounting for Restructuring Costs." SFAS 146 applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts and relocating plant facilities or personnel. Under SFAS 146, the Company will record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. SFAS 146 will require the Company to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit activity is initiated and in any subsequent period until the activity is completed. SFAS 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with earlier adoption encouraged. Under SFAS 146, a company cannot restate its previously issued financial statements and the new statement grandfathers the accounting for liabilities that a company had previously recorded under Emerging Issues Task Force Issue 94-3.

Accounting for Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure - an amendment of FASB Statement No. 123," ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock Based Compensation" ("SFAS 123") and provides alternative methods for accounting for a change by registrants to the fair value method of accounting for stock-based compensation. Additionally, SFAS 148 amends the disclosure requirements of SFAS 123 to require disclosure in the significant accounting policy footnote of both annual and interim financial statements of the method of accounting for stock based-compensation and the related pro forma disclosures when the intrinsic value method

continues to be used. The statement is effective for fiscal years beginning after December 15, 2002, and disclosures are effective for the first fiscal quarter beginning after December 15, 2002.

Derivative Instruments and Hedging Activities

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The changes in SFAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. This statement is effective for contracts entered into or modified after June 30, 2003 and all of its provisions should be applied prospectively.

Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 changes the accounting for certain financial instruments with characteristics of both liabilities and equity that, under previous pronouncements, issuers could account for as equity. The new accounting guidance contained in SFAS No. 150 requires that those instruments be classified as liabilities in the balance sheet.

SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type includes put options and forward purchase contracts, which involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments that are liabilities under this Statement is obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety.

Most of the provisions of Statement 150 are consistent with the existing definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements". The remaining provisions of this Statement are consistent with the FASB's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own shares. This Statement shall be effective for financial instruments entered into or modified after May 31, 2003 and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of a non-public entity, as to which the effective date is for fiscal periods beginning after December 15, 2004.

Loan Commitments Accounted for as Derivative Instruments

In March 2004, the U.S. Securities and Exchange Commission's Office of the Chief Accountant and the Division of Corporate Finance released Staff Accounting bulletin ("SAB") No. 105, "Loan Commitments Accounted for as Derivative Instruments". This bulletin contains specific guidance on the inputs to a valuation-recognition model to measure loan commitments accounted for at fair value, and requires that fair-value measurement include only differences between the guaranteed interest rate in the loan commitment and market interest rate, excluding any expected future cash flows related to the customer relationship or loan servicing. In addition, SAB105 requires the disclosure of the accounting policy for loan commitments, including methods and assumptions used to estimate the fair value of loan commitments, and any associated hedging strategies. SAB 105 is effective for derivative instruments entered into subsequent to March 31, 2004 and should also be applied to existing instruments as appropriate. The Company has not yet completed its evaluation of SAB 105, but does not anticipate a material impact on the financial statements.

Share-Based Payment

In December 2004, the FASB issued SFAS No. 123 (R), "Share-Based Payment". SFAS No. 123 (R) revises SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS No. 123 (R) focuses primarily on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123 (R) requires companies to recognize in the statement of operations the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). SFAS No. 123 (R) is effective as of the first interim or annual reporting period that begins after June 15, 2005 for non-small business issuers and after December 15, 2005 for small business issuers. Accordingly, the Company will adopt SFAS No. 123 (R) in its quarter ending March 31, 2006. The Company is currently evaluating the provisions of SFAS No. 123 (R) and has not yet determined the impact, if any, that SFAS No. 123 (R) will have on its financial statement presentation or disclosures.

Accounting for Nonmonetary Transactions

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB No. 29". The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS No. 153 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005, earlier application is permitted. The Company has determined that SFAS No. 153 did not have any impact on its financial statement presentation or disclosures.

Accounting for changes in accounting principles

In May 2005, the FASB issued SFAS No. 154 that establishes new standards on accounting for changes in accounting principles. Pursuant to the new rules, all such changes must be accounted for by retrospective application to the financial statements of prior periods unless it is impracticable to do so. SFAS No. 154 completely replaces Accounting Principles Bulletin (APB) Opinion 20 and SFAS 3, though it carries forward the guidance in those pronouncements with respect to accounting for changes in estimates, changes in the reporting entity, and the correction of errors. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management does not believe the adoption of SFAS No. 154 will have a material impact on the Company's financial condition or results of operations.

Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140" This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." This Statement permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for fiscal years beginning after September 15, 2006. Management

does not believe the adoption of SFAS No. 155 will have a material impact on the Company's financial condition or results of operations.

Seasonality

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

Liquidity and Capital Resources

The Company's primary cash requirements were for operating expenses, funding accounts receivable, the purchase of inventory to support operations, taking greater advantage of available cash discounts offered by certain of the Company's suppliers for early payment, acquisitions and debt service. The Company had historically funded these cash requirements through a combination of loans, internally generated cash flow and the net proceeds of its initial public offering.

General. The Company had suffered operating losses in fiscal 2000 and 2001. Ongoing legal costs associated with the litigation related to Big Blue Europe, the costs associated with the Company's electronic commerce strategy, increases in general overhead costs, and increased interest expense due primarily to increased borrowings, coupled with decreasing sales volumes and gross profit margins, negatively impacted operating results. These factors resulted in the noncompliance of the financial covenants of the Company's loan agreements. Due to these operating results and the covenant violations, the lender on the American Micro and Nor'Easter lines of credit and the European Micro Holdings, Inc. term loan demanded repayment of the Nor'Easter line of credit before June 15, 2001 and the American Micro line of credit and the European Micro Holdings term loan by August 15, 2001. As a result, during April 2001, the Company decided to cease operations at Nor'Easter and during June 2001, the Company decided to cease operation at Colchester. The Nor'Easter line of credit was repaid on June 15, 2001. The American Micro line of credit was repaid during May 2001. The European Micro Holdings term loan was repaid on August 20, 2001.

The contingent earn-out payment of the American Micro acquisition relating to two times the after tax earnings for calendar year 2000 of approximately \$1,839,000 was due to the former American Micro shareholders. As a result of financial restrictions imposed by the lender on the American Micro and Nor'Easter lines of credit, on February 20, 2001, the Company delivered two Secured Promissory Notes ("Notes") to the former American Micro shareholders in the original amount of \$823,712 each. The Notes called for monthly principal payments of \$50,000, plus interest at 8% commencing April 1, 2001, subject to financial covenant restrictions. Each Note was due in full within (30) days of the satisfaction of the American Micro and Nor'Easter lines of credit. On July 15, 2001, the Company notified the former American Micro shareholders that it would be unable to meet its obligations under each Note. After the repayment of the American Micro and Nor'Easter lines of credit along with the repayment of the European Micro Holdings, Inc. term loan, the Company was no longer restricted from performing its obligations to the American Micro shareholders. On August 22, 2001 the former American Micro shareholders demanded full payment of the Notes. On September 1, 2001 the notes payable to the former American Micro shareholders were settled by transfer of all American Micro shares from European Micro Holdings to the former American Micro shareholders.

Another factor that negatively impacted the Company's liquidity was the terms of the borrowing arrangements of European Micro UK. European Micro UK's borrowing capacity was subject to termination by the lender at the lender's sole discretion. During August, 2001 the lender on the European Micro UK's line of credit demanded repayment. European Micro UK was able to repay the line of credit with a loan from a significant shareholder.

Hence, with the complete termination of all lines of credit available to the Company, the closures of Nor'easter and Colchester and the loss of American Micro, the Company had no alternative but to proceed with a complete liquidation of all assets. On July 12, 2005, the Company declared a cash dividend in the aggregate amount of \$200,000 on the issued and outstanding shares of Common Stock held by shareholders of record as of August 1, 2005. The dividend was paid on September 1, 2005. As of July 31, 2006, liquidation is almost complete with the only asset being cash in the approximate amount of \$20,000.

Long-Term Capital. The Company's long-term capital needs were historically met from the sales of securities and long-term borrowings. Certain long-term funding was supplied to the Company in the form of capital lease agreements and term loans. The lease agreements were secured by vehicles owned by the Company. As of June 30, 2001, the borrowings were \$161,000, of which \$94,000 was due after more than one year.

On October 28, 1999, the Company obtained a \$1.5 million term loan. The term loan agreement was with the same lender as the Nor'easter Micro and American Micro line of credit facilities discussed above. Further, the term loan credit agreement contained similar loan covenant requirements. The term loan was to be repaid with quarterly payments of \$125,000 over three years. The term loan bore interest at the one-month LIBOR plus two and one-quarter percentage points (2.25%). One-month LIBOR at June 30, 2001 was 3.8625%. Seven payments were made, bringing the balance down to \$625,000 at June 30, 2001. The term loan was secured by substantially all of the assets of the Company. As partial security for this loan, Messrs. Gallagher and Shields pledged to the lender a portion of their shares of common stock of the Company. In addition, Mr. Shields pledged personal assets as additional collateral and further agreed to maintain certain personal financial statement liquidity levels. As described above, the Company was not in compliance with loan covenants for the June 30, 2001 reporting period. This term loan was repaid on August 20, 2001.

On July 1, 1999, the Company acquired AMCC for a purchase price of \$1,131,00, plus an earn-out. The portion of the purchase price paid at closing was funded through the Company's working capital. The contingent earn-out payment relating to two times the after tax earnings for calendar year 1999 of approximately \$600,000 was paid in March 2000. Pursuant to the original merger agreement, the remaining earn-out portion was to be due no later than May 1, 2001.

On July 16, 1999, European Micro UK purchased the office building in which it had previously been leasing space for 1,705,000 pounds sterling (\$2,405,000 at June 30, 2001). The purchase price was financed in part by a loan in the amount of 1,312,000 pounds sterling (\$1,851,000 at June 30, 2001). This loan called for monthly payments of principal and interest in the amount of 15,588 pounds sterling (\$21,988 at June 30, 2001) and would have matured in July 2009. The mortgage loan note bore interest at a fixed rate of 7.6%. The mortgage loan note included certain financial and non-financial covenants and restrictions. The agreement also contained a provision whereby the lender could have declared a default based on subjective criteria. The financial covenants were measured using the financial results of European Micro UK as of each fiscal year end. Based upon European Micro UK's fiscal year end operating results, European Micro UK was out of compliance with one of the covenant requirements at June 30, 2001. The Company was not able to obtain a waiver of this non-compliance. Therefore, the total amount outstanding under the mortgage loan note was reflected in current maturities of long term debt at June 30, 2001.

On August 24, 2000, European Micro Holdings, Inc. entered into an Equity Line of Credit (the "Equity Credit Line"). The Company raised \$50,000 by issuing 25,020 shares of common stock under the Equity Credit Line. The Company and the investor agreed to terminate the Equity Credit Line effective May 15, 2001. In connection with such termination, all outstanding warrants held by the investor and the placement agent were terminated. The Company agreed to issue the placement agent warrants to purchase 500,000 shares of common stock at \$5.00 per share, which warrants become exercisable only if the closing bid price of such common stock is \$4.00 per share or more for ten consecutive trading days. These warrants expired on August 23, 2005. Since the closing bid price of the common stock was never \$4.00 for ten consecutive trading days, the warrants never became exercisable, and as such no expense was recognized.

On May 15, 2001, the Company also terminated a consulting agreement that was entered into in connection with the Equity Credit Line. On August 8, 2000, under the consulting arrangement, the Company issued to the consultant options to purchase 100,000 shares of its common stock at an exercise price of \$4.55. In connection with the termination, the options issued to this consultant were terminated. The Company expensed \$105,000 of the value in the year ended June 30, 2001.

Currency Risk Management

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

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

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of the Company appear beginning at page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

On December 28, 2000, KPMG was dismissed as the independent certified public accountants for the Company. On the same day, BDO Seidman was engaged as the Company's independent certified public accountants. On January 5, 2001, the Company filed a Form 8-K, which disclosed that the Company dismissed KPMG LLP as its independent certified public accountant effective December 28, 2000.

On February 12, 2004, the Company chose to engage the accounting firm of Weinberg and Company, P.A. to serve as independent certified public accountants. On November 11, 2005, the Company filed a Form 8-K, which disclosed that the Company dismissed BDO Seidman as its independent certified public accountant effective February 12, 2004. The dismissal of KPMG and BDO Seidman was not in connection with any dispute over accounting practices or the Company's financial statements or reporting; management believed that it would be more economical and in their best interest to retain a local independent registered public accounting firm.

Item 8A. Controls And Procedures

(A) Evaluation Of Disclosure Controls And Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's Principal Executive Officer and Principal Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving the Company's disclosure control objectives. The Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are, in fact, effective at this reasonable assurance level as of the period covered. In addition, the Company reviewed its internal controls, and there have been no significant changes in its internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation or from the end of the reporting period to the date of this Form 10-KSB.

(B) Changes In Internal Controls Over Financial Reporting

In connection with the evaluation of the Company's internal controls during the Company's fourth fiscal quarter ended June 30, 2001, the Company's Principal Executive Officer and Principal Financial Officer have determined that there are no changes to the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially effect, the Company's internal controls over financial reporting.

Item 8B. Other Information

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The Board of Directors of the Company consists of six seats, divided into three classes of two members each. The terms of office of the three classes of directors (Class I, Class II and Class III) end in successive years. Currently there are four vacancies, two in Class I and two in Class II. Pursuant to the Company's bylaws, a majority of the remaining two members of the Board may appoint successors to fill the vacancies.

Class III Directors—Present Term

John B. Gallagher

Age 51

Mr. Gallagher is co-founder of the Company and European Micro Plc, a wholly-owned subsidiary of the Company. He has served as Co-Chairman, Co-President and Director of the Company since it was formed in December 1997. Mr. Gallagher has also served as Co-Chairman and Director of European Micro Plc since it was formed in 1991 and as President, Secretary, Treasurer and Director of American Micro Computer Center, Inc., a computer distributor, since 1999. Between 1989 and 1999, Mr. Gallagher served as President of American Surgical Supply Corp. of Florida d/b/a American Micro Computer Center until it was acquired by the Company in 1999 and changed its name to American Micro Computer Center, Inc. He was a Director and President of Ameritech Exports, a computer distributor, from 1992 to 1997. Mr. Gallagher is an attorney with a Bachelor of Arts and a Juris Doctorate from the University of Florida.

Harry D. Shields

Age 56

Mr. Shields is co-founder of the Company and European Micro Plc, a wholly-owned subsidiary of the Company. He has served as Co-Chairman, Co-President and Director of the Company since it was formed in December 1997. Mr. Shields has also served as Co-Chairman and Director of European Micro Plc since it was formed in 1991. Mr. Shields had been Vice President and a Director of American Micro Computer Center, Inc. from its acquisition in 1999 to August 31, 2001. He served as President of Technology Express, a computer distributor, from 1986 to 2003, and was a Director of Ameritech Exports, a computer distributor, from 1992 to 1997. Mr. Shields has a Bachelor of Arts from DePaul University and a Masters of Science from the University of Tennessee.

Executive Officer

In addition to John B. Gallagher, Harry D. Shields, and Laurence Gilbert, who are listed above, the following individual is an executive officer of the Company:

Jay Nash
Age 44

Mr. Nash has been Chief Financial Officer, Controller, Secretary and Treasurer of the Company since January 1998. He had also been Assistant Secretary and a Director of American Micro Computer Center, Inc. since 1999. He had served as Vice President of Technology Express, Inc., a computer distributor, since 1992 and was an accountant with Jacques Miller, a real estate firm, from 1986 to 1992 and KPMG LLP, an accounting firm, from 1983 to 1986. Mr. Nash is a Certified Public Accountant with a Bachelor of Science in Accounting from the University of Tennessee.

ITEM 10. EXECUTIVE COMPENSATION.**Executive Compensation****Summary Compensation Table**

The following table sets forth compensation information for the three fiscal years ended June 30, 2001 for the Company's Chief Executive Officers, the two other executive officers of the Company and two most highly compensated executive officers of European Micro Plc for Fiscal 2001.

Name and Principal Position(s)	Fiscal Year	Annual Compensation		Other Annual Compensation (1)	Long-Term Compensation No. of Stock Options Granted (2)		All Other Compensation
		Salary	Bonus				
John B. Gallagher Co-Chairman and Co-President	2001	\$ 329,000(3)	\$ 0	\$ 0	0	\$ 0	0
	2000	370,667(3)	0	0	0	0	0
	1999	225,000	100,000	0	0	0	0
Harry D. Shields Co-Chairman and Co-President	2001	\$ 225,000	\$ 0	\$ 0	0	\$ 0	0
	2000	266,667					