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NUWAY ENERGY INC  
Form 10KSB  
April 12, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-KSB

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

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For the fiscal year ended December 31, 2001

Commission File #33-43423

NUWAY ENERGY, INC.

A Delaware Corporation

65-0159115

-----  
(IRS Employer Identification Number)

19100 Von Karmon Avenue #450  
Irvine, CA 92612

(949) 553-8002

-----  
(Telephone Number)

Securities Registered Under Section 12(b) of the Exchange Act: None

Securities Registered Under Section 12(g) of the Exchange Act:

Common Stock, \$0.00067 par value

Warrants, exercisable at \$3.00 per share

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for its most recent fiscal year: \$749,842

Aggregate market value of the voting stock held by non-affiliates, computed by reference to the average bid and asked prices of such stock, as March 8, 2002: \$7,158,663

Number of shares outstanding of the registrant's common stock, as of April 9, 2002: 6,470,853 shares.

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LATIN AMERICAN CASINOS, INC.

FORM 10-KSB

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PART I

ITEM 1. BUSINESS

GENERAL

NuWay Energy, Inc. (the "Company") formerly Latin American Casinos, Inc. operates a slot machine rental and remanufacturing Company in South and Central America and is involved in the distribution and sale of its own premium brand cigars in the United States. In addition, the Company has entered into the

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Oil and Gas industry in Canada via the formation of subsidiaries in Alberta, Canada, and Nevada, U.S. The Company is a partner with existing oil and gas operators in the province of Alberta, Canada.

The Company was initially organized as Repossession Auction, Inc., a Florida corporation, in 1989. The Company merged into a Delaware corporation bearing the same name in 1991. In 1994, the Company changed its name to Latin American Casinos, Inc. to reflect its entrance into the gaming and casino business in South and Central America, and in 2001 the Company changed its name to NuWay Energy, Inc. to reflect its entrance into the oil and gas industry. The Company maintains its principal place of business at 19100 Von Karman Ave, Ste 450, Irvine, CA 92612. Its telephone number is (949)553-8002.

### SLOT MACHINE OPERATIONS

The Company concentrates its efforts on the rental of used five reel slot machines. The Company purchases these machines at a fraction of the cost of new machines, which are then refurbished at facilities in Latin America for use in South and Central America. Whereas a new slot machine costs approximately \$10,000, plus duty charges, the used slot machines purchased by the Company cost approximately \$700 each, including freight, duty, and limited refurbishing expenses. The Company has determined that more extensive refurbishing extends the working life of each slot machine for up to an additional five years. Currently, the expected useful life of a used slot machine is five years. Such additional refurbishing increases the cost of each machine by approximately \$100. This refurbishing in no way impacts any government regulations that could mandate obsolescence.

The Company entered the gaming and casino industry in Peru in 1994. Since then, the Company has been engaged in the renting of slot machines to licensed gaming establishments in various major 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, and in 1997, the Company formed a subsidiary in Nicaragua, which was liquidated in year 2000.

As of December 31, 2001, approximately 538 slot machines were in operation in Peru and approximately 330 slot machines were in operation in Colombia. These machines are installed in, among other establishments, drug stores, pool halls, bars, restaurants and nightclubs. The Company is in the process of scaling down it's operations in both Peru and Columbia in order to prepare for the announced planned merger with Digital Convergence.

The Company has offices in Lima, Peru; and Bogota, Colombia.

Hurricane Mitch adversely affected the Company's operations in Nicaragua, which were not substantial, in October 1998. The Company liquidated all of its assets in Nicaragua in the year 2000.

The Company competes with all the major gaming companies in Latin America, including IGT, Novomatic and Admiral. Many of the companies are more established and have greater resources. The Company, through its current relationships with its existing clients believes that it has created in which the impact of competition from major companies is limited.

### SOURCE OF MACHINES

The Company had purchased used slot machines from several vendors in Australia, including Damlite Pty. Ltd. and Olympic Video Gaming, a subsidiary of International Gaming Technology. The Company's principal vendor is AJ Electronics Repairs Pty. Ltd., ("AJ"), an Australian Company which services and disposes of used slot machines. The loss of any of these suppliers, including

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AJ, would not have a material adverse effect on the Company's business due to the existence of other sources.

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### REFURBISHING PROCESS

All slot machines purchased were delivered to the Company's warehouses in Lima, Peru or Bogota, Colombia and were refurbished by the Company's technicians. Each slot machine is electronically tested for 30 minutes to assure that it is in correct working order. Defective or worn parts are replaced or repaired. Once the technician is satisfied that the machine is in proper working order, the machine is thoroughly cleaned inside and out. At that time, a computerized printed card that translates the rule of play from English to Spanish is placed inside the machine in such a way that it can be seen and read by the slot machine player. Refurbished machines are then placed in service in the various locations. While the refurbishing does extend the useful life of a used slot machine, this refurbishing in no way impacts the effect of any possible government regulations that could mandate obsolescence.

### RENTAL OF SLOT MACHINES

The slot machines are rented to licensed individual owner operators under a rental contract usually for a term of one year or longer. The contract provisions vary depending on, among other things, the number of slot machines requested by the renter. All contracts are backed by a personal guarantee for the first four installment payments from the renter to insure against non-payment of rental fees in the contract's initial stage. The rental contracts also provide insurance to cover any loss by fire, theft, vandalism or political unrest.

### GOVERNMENT REGULATION

The governments of Peru, Colombia have regulations governing gaming activities. Essentially, these regulations establish licensing requirements for slot machine operations. It is anticipated that new regulations governing the age and condition of machines will soon be enacted. The Company takes appropriate steps to verify the licenses of its customers. The Company is in the process of reviewing its operations in both Peru and Columbia in order to prepare for the announced planned merger with Digital Convergence.

The Peruvian government, in October 1996, imposed an excise tax of 200% on lessees of gaming equipment, including slot machines. The excise tax caused many of the Company's customers to return their slot machines to the Company rather than pay the higher tax.

In January 1997, the Company obtained a temporary injunction against the Peruvian government, prohibiting it from implementing the excise tax of 200%. The Government has lowered the tax to a more realistic level. It is anticipated that new regulations governing the age and condition of machines will be enacted in the coming years. Given this, the Company is evaluating whether to increase or decrease its slot machine operations in Peru.

The re-imposition of an excise tax of 200% in Peru would adversely affect future earnings. Accordingly, if the Company were not successful in preventing the tax, it would reevaluate its position in Peru.

### PREMIUM CIGAR OPERATIONS

Beginning in September 1997, the Company directed part of its efforts into establishing a business of producing, distributing and selling premium

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cigars throughout the United States.

World's Best Rated Cigar Company ("World's Best") was formed as a subsidiary to distribute cigars produced by Claudio Norberto Mercado. Mr. Mercado resides in Santiago, Dominican Republic, in the Villa Gonzalez region, the heart of the tobacco-growing valley. In a business arrangement, World's Best advanced \$75,000 to Mr. Mercado to build a cigar factory. World's Best also advanced the sum of \$15,000 to purchase all necessary fixtures to produce cigars, such as molds, rolling tables, compressors, etc. World's Best holds a mortgage on the factory to secure these advances. However, the Company determined that the plan of selling one cigar from one manufacturer was too limited. Therefore, during the summer of 1998, World's Best entered into contractual arrangements with five other manufacturers in Nicaragua, Honduras and the Dominican Republic. All of the manufacturers produce hand made 100% Cuban seed, long leaf filler premium cigars. The manufacturers are world-renowned and they manufacture cigars for over 20% of the brand name cigars currently on the market.

These agreements allow the Company to acquire cigars at a fraction over their cost and will enable them to be sold at a retail price significantly below the current retail price for brand name premium cigars. The agreements require that the manufacturers use high grade long leaf tobacco, hand roll the cigars utilizing high grade filler and parchment wrapping of a grade selected by the Company and wrap the cigars individually in cellophane and box them for shipping. They also require the manufacturers to retain a specified amount of

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inventory at all times to satisfy the Company's cigar purchase orders. The cigars are then transported to the Company's facilities in Miami where they are shipped to both retail customers and wholesale distributors.

The cigars are marketed through our web site: [www.worldsbestrated.com](http://www.worldsbestrated.com) as well as our toll free number in bundles and boxes of twenty-five from the six manufacturers. A color-coded cigar ring identifies each of the products of the six cigar manufacturers. Traffic to the web site and to our toll free number, is generated by our advertising in both traditional and non-traditional cigar magazines, newspapers, electronic advertising. Our clients are provided with literature describing the manufacturer's history, factories and plantations. This change in sales strategy has resulted in a nearly six-fold increase in sales and the Company believes this increase can be sustained through the year 2002.

Suggested retail pricing on the cigars range from \$40.00 for a bundle of 25 panatelas to \$50.00 for a bundle of 25 presidentes. The popular Churchill size has a suggested retail price of \$48.00 for a bundle of 25. These prices are 60% to 80% lower than prices charged in tobacco shops for cigars of the same quality and they include free shipping anywhere in the USA. Substantially all incurred advertising expenses were paid with barter transactions.

The Company continues to work on establishing relationships with various distributors in the United States who supply convenience stores, restaurants, bars and supermarkets with products. While the Company has had limited success with this strategy, it will continue to attempt to establish these relationship with companies that have various means of distribution. These relationships require many meetings and conversations over a protracted period of time. The Company is committed to pursuing these relationships.

### OIL AND GAS

Beginning in July 2000 the Company directed part of its efforts to the

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exploration for and the development of oil and gas properties in Canada. The Company's exploration and development activities related to oil and gas are conducted jointly with others. The Company purchased a 30% working interest in the Superb area of Saskatchewan, Canada and a 20% working interest in the Altares Gas project in Northeast British Columbia.

The Altares acquisition includes a working interest in a rolling option on 10,000 acres of land and 20% interest in over 5,700 acres of additional land. The investment also includes the farm in fees as well as the capital required to drill the first two commitment wells on the 10,000 acres.

The Superb area of Saskatchewan includes a working interest in four existing Waseca heavy oil wells with a combined production rated of approximately 250 barrels per day. Additionally, the Company has identified seven infill drilling locations based on geology and 3-D seismic that should increase field productivity to over 800 barrels per day. The Company plans to finish drilling as soon as possible. Recent improvements on the property have been the construction of a central battery and water injection facility to reduce operating costs and optimize well production.

### Employees

The Company currently has a total of 32 full-time employees. The reduction of 11 employees from the previous year was a result of our operations in Peru, Miami and Columbia, and downsizing of our technical and clerical staff in our other locations. The Company has two employees in the Miami office: one executives and one in clerical position. The Company has three executives and one secretary in the Irvine, CA Corporate Office. In Lima, Peru, the Company has five clerical employees in its business office, including a general manager and five service technicians in its warehouse and remanufacturing plant. In Colombia, the Company employs a total of five clerical employees including a general manager in its three business offices and nine service technicians in its warehouse and refurbishing facility.

The Company believes its relations with its employees are good.

### ITEM 2. PROPERTIES

The Company's executive offices and operating facilities located at 19100 Von Karman Avenue, Suite 450, Irvine, CA 92612 and is leased on month to month for \$7,670 per month. In addition the Company is leasing, on a month to month basis, our Miami Office and warehouse for \$1,590 per month.

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The Company leases a 2,000 square foot business office in San Isidro, a municipality in Lima, Peru, for \$600 per month. The lease terminated in June 2002, with a renewal option. The Company also leases a 10,000 square foot main warehouse and refurbishing facility in Lima, for \$1,000 per month, the lease terminated on June 2002. The Company is currently negotiating with the landlords in Lima, Peru for an additional reduction in rent.

In Bogota, Colombia the Company leases a 4300 square foot combined office and warehouse facility for \$865 per month. This lease terminates on January 1, 2002 and will extend to January 1, 2003. The Company also leases in Bogota an additional 1100 square foot warehouse for \$260 per month. This lease expires May 19, 2002.

The Company was the lessor of office space and used car lot at 11337 NW 7th Avenue in Miami on a month-to-month basis for \$1,200 per month. The property is leased to an unrelated party. The Company acquired the property as an office

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space and used car lot in 1990. This property was converted to a rental property when the Company exited the used vehicle business and entered the slot machine business. Over the years, the Company, expended in excess of \$100,000 as a result of environmental concerns on the property. The Company took a charge to operations in 1999 to reduce the value of this property to its net realizable value. In March 2001, the Company sold this property and recorded a net loss on the sale of the property of \$64,000.

### ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant from time to time in claims and lawsuits arising out of the normal course of its business, none of which have or are expected to have a material adverse effect on its business, operations, financial position or corporate liquidity.

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

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of 2001.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### MARKET INFORMATION

From June 20, 1994 until October 30, 1998, the Company's Common Stock and Warrants were listed on the NASDAQ Stock Market under the symbol "LACI" and "LACIW", respectively. Beginning in October 31, 1998, the Company's Common Stock and Warrants were listed on the NASDAQ Small Cap. In August 2001, the Company changed the symbol of its Common Stock and Warrants to "NWAY" and "NWAYW" respectively. The table below represents the quarterly high and low bid prices for the Company's Common Stock and Warrants for the last two fiscal years as reported by NASDAQ.

Common Stock -----	High ----	Low ---
2001 ----		
January 1 - March 31	4.25	2.00
April 1 - June 30	3.15	2.00
July 1 - September 30	3.28	2.10
October 1 - December 31	2.99	1.67
2000 ----		
January 1 - March 31	1.75	1.03
April 1 - June 30	1.46	1.12
July 1 - September 30	1.81	1.21
October 1 - December 31	2.50	1.59

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Warrants -----	High ----	Low ---
2001 ----		

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January 1 - March 31	1.87	.56
April 1 - June 30	1.03	.50
July 1 - September 30	.85	.50
October 1 - December 31	.58	.25

2000

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January 1 - March 31	.50	.31
April 1 - June 30	.40	.31
July 1 - September 30	.50	.31
October 1 - December 31	.84	.43

The closing prices for the Common Stock and Warrants on March 8, 2002 were \$2.14 and \$.26 respectively. The Nasdaq Stock Market suspended trading of the Company's securities as of March 11, 2002.

There were 47 registered owners and approximately 1,227 beneficial owners of the Common Stock of the Company as of December 31, 2001. The Company did not declare a dividend in 1999, 2000, or 2001.

As of December 31, 2001, the Company has outstanding (i) 1,725,000 publicly traded Warrants to purchase one share of the Company's Common Stock at an exercise price of \$3.00 through December 11, 2002, and (ii) 3,300,000 five year warrants to purchase one common stock at an exercise price of \$1.75 per share through December 11, 2005. See Section entitled Subsequent Events.

On December 14, 2001 the Company issued and sold \$3,500,000 principal amount of Convertible Debentures to certain accredited investors. The Convertible Debentures are convertible into shares of Common Stock at a price of \$1.75 per share and expires June 13, 2001. The Convertible Debentures were issued pursuant to the exemption from registration requirements of the Securities Act of 1933 provided by Section 4(2) of such Act and Rule 506 promulgated by the Securities and Exchange Commission under that Section. The Company incurred approximately \$64,500 of costs in regard to this private placement. The debt issuance costs will be amortized over the life of the debentures. The interest on the debentures is payable either in cash or in additional shares of common stock, at the discretion of the company. The conversion price of the debentures was determined by the approximate market value of the common stock at the date of issuance.

Prior to December 31, 2001 approximately \$1,100,000 of debenture holders converted their debentures into common stock for the value of their debentures and the accrued interest of \$66,000. At December 31, 2001 included in accounts payable was \$144,000 of accrued interest on these debentures. See Section entitled Subsequent Events.

In December 2000 the Company issued private warrants to purchase 3,300,000 shares of common stock at an exercise price of \$1.75 per share through December 11, 2005. These warrants were issued in connection with services rendered by several individuals (including our CFO and COO pursuant to employment agreements) and entities. See Section entitled Subsequent Events.

Effective June, 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, we 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 Jun 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. At the date issuance and subsequent re-pricing date the warrant price equaled or



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exceeded the market value of the corporate stock.

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 of \$1.00 per share and canceled 10,000 options issued in 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.

As of December 31, 2001 the Company has agreed to register 135,000 shares of common stock (pursuant to employment agreements with certain employees of the Company), 225,000 shares of common stock underlying investment banking warrants (pursuant to piggy back registration rights contained in these investment banking warrants), 3,300,000 shares of common stock underlying private warrants (pursuant to piggy back registration rights contained in these warrants), 2,120,000 shares of common stock underlying the company's convertible debentures. As of December 31, 2001 the aforementioned 225,000 shares of common

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stock underlying investment banking warrants and the 2,120,000 shares of common stock underlying the company's convertible debentures, as well as 300,000 shares of Common Stock underlying the Company's private Warrants, and 1,725,000 shares of Common Stock underlying the Company's public Warrants, could be sold pursuant to Rule 144 under the Securities Act.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### RESULTS OF OPERATIONS - 2001 COMPARED TO 2000

Revenues from the rental of slot machines in Peru and Colombia for the year ended December 31, 2001 decreased by \$207,873 or (31%), to \$461,778 from \$670,000 for the comparable period in 2000. The Company's revenues from cigar sales were \$170,709 for the year ended December 31, 2001 as compared to sales of \$163,900 for the same period in 2000.

The reason for the decrease in gaming 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, the devaluation of foreign currency as well as the need to replace machines with newer more modern equipment.

Selling, general, and administrative expenses incurred in the year ended December 31, 2001 increased \$1,377,944 or 53%, to \$3,973,143 from \$2,595,200 for the same period in 2000.

The increase in selling, general, and administrative expenses were incurred primarily due to the expenses of pursuing other business opportunities, including, but not limited to, oil and gas ventures.

In 2000 the Company recorded non-recurring expenses associated with the issuance of common stock and warrants as compensation in the amount of \$2,518,500, and costs associated with the liquidation of Nicaraguan subsidiary of \$162,000 and officer compensation of \$115,000 due the former Chief Operating Officer, Lloyd Lyons, under his employment agreement. The increase is also due in part to the increased cost of servicing the older machines and the cost of employee severance requirements in these countries.

Net income (loss) for the year ended December 31, 2001 was (\$6,652,433) or (\$1.56) per share compared to (\$4,699,000) or (\$1.40) per share for the same period in 2000. The net loss was attributable to the significant decline in

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revenues from slot machine operations and an increase in overhead expenditures including officer compensation. In addition, in 2001 the Company reduced its asset values and has charged current operations with a \$3,015,182 asset impairment charge due to the Company's ongoing valuation as to the utility of gaming equipment.

Through December 31, 2001 the Company expended approximately \$1,196,000 on the establishment of a premium cigar business; additional expenditures for marketing and personnel are expected in year 2002. The Company expended approximately \$54,000 in 2001 in the cigar business up from \$42,000 in 2000 a increase of \$12,000. The Company anticipates that it will generate revenues from this business in year 2002, although the amount of such revenues is, at this time, impossible to forecast. The effect that this business will have on the overall profitability of the Company is uncertain.

### RESULTS OF OPERATIONS - 2000 COMPARED TO 1999

The Company's revenues from the rental of slot machines were \$670,000 for the year ended December 31, 2000, a decreased of \$1,181,000 from the year ending December 31, 1999. The decrease was due in part to the concerns over government mandated obsolescence, political changes, increased competition, as well as the devaluation of the foreign currency. The Company's revenues from cigar sales were \$163,900 in 2000.

Selling, General and Administrative Expenses incurred in the operation of the Company's cigar, gaming and casino business for the year ended December 31, 2000 from \$1,771,700 to \$2,595,200 in 2000.

As a result of the decrease in revenues, without a significant change in operating expenses, the effect of the increase in Selling, General and Administrative Expenses, as well as the impairment cost of the Company's gaming, cigar, and real estate assets, the Company's net loss was (\$4,699,000) and (\$1.40) per share for the year ended December 31, 2000 compared to net income of \$531,000 or \$0.16 per share for the preceding year. As a result of political changes and government-mandated obsolescence of certain gaming equipment, the company adjusted previously recorded cost of gaming equipment to its anticipated net realizable value.

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Additionally, the Company reduced the valuation of certain real estate value in Miami to reflect current market conditions and adjusted its investment in the cigar operations to account for the slower than expected sales. The total impairment charge was computed as follows:

Gaming Equipment Asset Impairment Charge	\$ 1,245,000
Miami Real Estate Impairment Charge	86,000
Reduction of Cigar Investment	169,000
Other	15,000
	-----
Total	\$ 1,515,000
	=====

The gaming equipment impairment charge was based on valuation of obsolescence and replacement values made by management. Consideration in the valuation was the decrease in utilization of the gaming equipment due to decreased volume of operations. The impairment value of the Miami Real Estate was based on an independent appraisal received and subsequent sale of the property as further described in Note 13 to the Financial Statements. The impairment cost of the cigar inventory cost was the result of certain packaging

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and tube cost that had been abandoned.

Through 1999 the Company expended approximately \$1,100,000 on the establishment of a premium cigar business; additional expenditures for marketing and personnel are expected in year 2000. The fact that there were no costs associated with acquisitions of cigars and related inventory in 1999, accounted for the change. In 1999, an insignificant amount was spent to acquire additional inventory. The Company anticipates that it will generate significant revenues from this business in year 2000, although the amount of such revenues is, at this time, impossible to forecast. The effect that this business will have on the overall profitability of the Company is uncertain.

### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased approximately \$3,982,173 to \$440,827 at December 31, 2001 from \$4,423,000 at December 31, 2000. This decrease was attributable in part to \$1,675,691 expended in the Company's new oil and gas operations.

The Company does not anticipate that its cash position should be sufficient to meet its cash needs for the next twelve months, but is exploring means to maintain its cash needs.

The Company does not have any commitments for material capital expenditures.

### FORWARD LOOKING STATEMENTS

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 safe harbor, 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 could have an effect on the Company's operations and business.
2. Political factors, particularly as they pertain to currency valuation, could affect the Company's business in ways, which are difficult to predict.
3. The agreements, which the Company has with five of its cigar manufacturers, are cancelable upon 60 days written notice. One or more such cancellations could have a material adverse effect on the Company's cigar operations.
4. The Company may be required to raise additional funds to expand its business operations, 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

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to acquire needed capital could have a material adverse effect on the Company's ability to expand.

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5. The Company may be required to expand its infrastructure, including the hiring of additional personnel in its executive offices. There can be no assurances that the Company will be able to attract and retain qualified personnel who will be successful in managing the Company's operations.

### ITEM 7. FINANCIAL STATEMENTS

Index to Consolidated Financial Statements -----	FORM 10-KSB -----
Independent Auditors' Report	F-1
Consolidated Balance Sheets as of December 31, 2001 and 2000	F-2
Consolidated Statements of Changes in Stockholders' Equity for years ended December 31, 2001 and 2000	F-3
Consolidated Statements of Operations for the years ended December 31, 2001 and 2000	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2001 and 2000	F-5
Notes to the Consolidated Financial Statements	F-6-23

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

On November 26, 2001, Shubitz Rosenbloom & Co., P.A. ("Shubitz") notified the Company that it has resigned as the Company's independent accountants. Shubitz' reports on the financial statements for the two most recent fiscal years ended December 31, 1999 and December 31, 2000 did not contain an adverse opinion, or a disclaimer of opinion, or was qualified as to audit scope or accounting principles. Furthermore, during the two most recent fiscal years and through November 26, 2001, there have been no disagreements with Shubitz on any matter of accounting principles or practices, financial statement disclosure or auditing scope and procedures, which disagreements, if not resolved to the satisfaction of Shubitz, would have caused that firm to make reference to the subject matter of such disagreements in connection with its reports.

On January 22, 2002, the Company engaged Hein + Associates LLP ("Hein"), as its independent accountants to audit the Company's financial statements for its fiscal year ending December 31, 2001. In the Company's two most recent fiscal years and subsequent interim periods prior to such engagement, the Company did not (itself or through someone acting on its behalf) consulted with Hein on any accounting or auditing matter. On March 4, 2002, Hein resigned as the Company's independent auditors. Hein never commenced an audit, and therefore never issued an opinion on the Company's year-end financial statements. During the period from January 22, 2002 (date Hein was engaged) through the date of Hein ceasing its engagement, the Company did not have any disagreements with Hein on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Hein would have caused that firm to make reference to the subject matter thereof in connection with its report. Hein had not yet commenced audit procedures on the December 31, 2001 financial statements as of the date of their resignation. However, prior to their resignation, Hein advised the Company that based on their reading of the

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December 31, 2000, financial statements, such prior year financial statements would require restatement. In addition, based upon a preliminary review of an appraisal of certain assets in South America performed for the Peruvian government, Hein advised the Company that it appeared likely the South American assets may be materially impaired.

On March 11, 2002, the Company engaged Shubitz, as its independent accountants to audit the Company's financial statements for its fiscal year ending December 31, 2001. Shubitz was formerly the Company's independent

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accountants until their resignation in November 2001, and as such they had prepared the Company's financial statements for the two most recent fiscal years and subsequent interim periods prior to such engagement.

### PART III

#### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The executive officers and directors of the Company are as follows:

Name ----	Age ---	Position -----
Todd Sanders	30	Director, President, Chief Executive Officer
William Bossung	43	Director, Secretary, Chief Operating Officer
Jose A. Caballero	44	Director
Michael Iscove	50	Director
Dennis R. Barry	62	Director

Directors are elected to an annual term that expires at our Company's annual meeting of stockholders.

Mr. Sanders joined the Company as a Director and Chief Executive Officer in October 2000. For the last five years Mr. Sanders has been acting as a private financier of both public and private ventures. Since 1998 Mr. Sanders has been the President of Strategic Capital Consultants, Inc., an Orange County, California based corporate finance and business development consulting company.

Mr. Bossung joined the Company as a Director and Chief Operating Officer in October 2000. For approximately the last ten years Mr. Bossung has been President of Alliance Financial Network, Inc. which provides financial consulting for public and private companies. From early 1995 until mid 1997 Mr. Bossung was the Director of Corporate Finance for Chadmoore Wireless Group, Inc. which was subsequently acquired by Nextel.

Mr. Caballero has served on the Board of Directors since April 1994. Mr. Caballero is the Vice President of Exfi International Corporation, an advertising and marketing agency that specializes in doing work for companies that plan to expand their business into Latin America. Mr. Caballero has been with Exfi International Corporation since 1987.

Mr. Iscove joined the Company in October 2000 as a Director. From June

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1995 to date, Mr. Iscove served as the Chairman, President and Chief Executive Officer of Sirius Corporate Finance Inc.

Mr. Barry has been a member of the Board of Directors since June of 1999. Mr. Barry has been employed as a commercial mortgage broker and real estate salesman for the past 37 years. He is a Vice President with the Mortgage Corporation of America since 1997.

### COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of our Company. Officers, directors and greater than ten percent stockholders are required by SEC regulations to furnish us with copies of Section 16(a) forms they file.

To our knowledge, based solely on review of the copies of such reports furnished to us and written representations that no other reports were required during the fiscal year ended December 31, 2001, the Company believes that, during the year ended December 31, 2001, all of the Company's executive officers, directors and greater-than-ten percent stockholders complied with all Section 16(a) filing requirements

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### ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the compensation paid or accrued during the last three completed fiscal years ended December 31, 2001 by the Company for services rendered by the Lloyd Lyons, Chief Executive Officer during those years (and part of fiscal 2000), and Todd Sanders, Chief Executive Officer, and William Bossung, Chief Executive Officer:

#### SUMMARY COMPENSATION TABLE

	Annual Compensation				Long Term Compens		
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Name and Principal Position	Year	Salary \$	Bonus \$	Other Annual Compensation \$	Restricted Stock Awards \$	Options SARs #	
Lloyd Lyons, Chief	2000 (2)	151,000	--	--	--	--	
	1999	348,000	348,000	[42,000]		650,000	(1)

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Executive  
Officer

Todd Sanders, Sanders, Chief Executive Officer	2000 (3)	--	--	--	100,000 (3)	750,000 (3)
--	----------	----	----	----	-------------	-------------

William Bossung, Chief Operating Officer	2000 (4)	--	--	--	100,000 (4)	750,000 (4)
--	----------	----	----	----	-------------	-------------

- =====
- (1) Options which were re-priced from \$2.50 to \$1.00 per share.
  - (2) Including wage continuation payments and outstanding loan from the Company applied as compensation.
  - (3) Became Chief Executive Officer in October 2000. Pursuant to an employment arrangement the Company issued Mr. Sanders 100,000 shares of restricted Common Stock and warrants to purchase 750,000 shares of Common Stock for \$1.75 per share. In February 2002 Mr. Sanders cancelled and terminated these warrants.
  - (4) Became Chief Operating Officer in October 2000. Pursuant to an employment arrangement the Company issued Mr. Bossung 100,000 shares of restricted Common Stock and warrants to purchase 750,000 shares of Common Stock for \$1.75 per share. In February 2002 Mr. Bossung cancelled and terminated these warrants.

The Company did not issue options to any Executive Officers during fiscal 2001.

REPORT ON RE-PRICING OF OPTIONS

The Board of Directors determined that in lieu of awarding a cash bonus and an increase in his non-accountable expense allowance to Mr. Lyons in connection with the performance of his duties as the Chief Executive Officer and Chairman of the Board of the Company, his outstanding stock options would be re-priced on the same basis as other outstanding stock options which were similarly re-priced.

The following table sets forth certain information with respect to outstanding stock options held by the Lloyd Lyons Chief Executive Officer (for part of 2000) or exercised in 2000.

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Name (a)	Shares		Number of Securities	
	Acquired On Exercise (#)	Value Realized (\$)	Underlying Un-exercised In-the-Money Options at Options at December 31, 2000	
	Exercisable	Un-exercisable	Exercisable	Un-exercisable
-----				

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Lloyd Lyons	650,000	162,500	--	--
-------------	---------	---------	----	----

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EMPLOYMENT AGREEMENTS

In January 1997, the Company entered into a five-year employment agreement with Lloyd Lyons, that provided for an annual salary commencing January 1997 of \$275,000 and increasing \$25,000 per annum commencing January 1, 1998. The contract provided for salary continuation for a period of two years after the death of the officer. In January 2000, Mr. Lyons passed away and effective August 2, 2000 the Company amended it's employment contract with the surviving widow (Geraldine Lyons, the Company's Chief Financial Officer and Secretary) and primary beneficiary of the Estate of the Lloyd Lyons, where-in the salary continuation clause included in his contract was replaced with a severance arrangement which requires the Company to pay Geraldine Lyons \$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 obligates 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 Geraldine Lyons remain in the employment of the company for at least four months following the amendment of the contract. The contract revisions further provided that the officer loan of Lloyd Lyons in the amount of \$115,000 be recorded as additional compensation, as required by the officer compensation agreement. Effective October 29, 2001 Mrs. Lyons tendered her resignation.

In January 2000 the company entered into two additional employment contracts, with President, Jeffrey Felder, President of Latin American Operations, Angel Garcia, 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, William Bossung and the Chief Executive Officer, Todd Sanders, whereby the company issued to each 100,000 shares of stock and warrants to purchase 750,000 shares of common stock at \$1.75 per share. Messrs. Sanders and Bossung terminated and cancelled their respective warrants in February 2002.

Other than described above and the stock option plans described below, as of December 31, 2001, the Company does not have any contingent forms of remuneration, including any pension, retirement, stock appreciation, cash or stock bonus, or other compensation plan.

DIRECTOR COMPENSATION

Non-Management directors receive \$300 for each meeting attended.

1994 STOCK OPTION PLAN



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In June 1994, the Board of Directors adopted the 1994 Stock Option Plan (the "Plan"). The maximum number of shares available for issuance under the Plan is 1,500,000 shares. The Plan terminates on June 13, 2004. The Plan is designed to provide additional incentives for Directors and officers and other key employees of the Company, to promote the success of the business and to enhance the Company's ability to attract and retain the services of qualified persons. The Board of Directors administers the Plan. The Plan authorizes the Board of Directors to grant key employees selected by it, incentive stock options and non-qualified stock options. The exercise price of shares of Common Stock subject to options qualifying, as incentive stock options must not be less than

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the fair market value of the Common Stock on the date of the grant. The exercise price of incentive options granted under the Plan to any participant who owns stock possessing more than 10% of the total combined voting power of all classes of outstanding stock of the Company must be at least equal to 100% of the fair market value on the date of grant. Fair market value has been determined to be the closing sales price for the Company's common stock reported by NASDAQ. In October 2000 the Board of Directors authorized the issuance of stock options under the Plan to certain officers and directors of the Company as more fully set forth in the footnotes to the Security Ownership table in Item 11 below.

### 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	237,500	
	=====	

The Board of Directors may amend the Plan at any time but may not, without shareholder approval, adopt any amendment, which would materially increase the benefits accruing to participants, or materially modify the eligibility requirements. The Company also may not, without shareholder approval, adopt any amendment, which would increase the maximum number of shares, which may be issued under the Plans, unless the increase results from a stock dividend, stock split or other change in the capital stock of the Company. In March 1999, the Board of Directors authorized an amendment to the Plan increasing the number of shares to be issued thereunder from 1,000,000 to 1,500,000. This amendment was submitted for shareholder approval at the 1998 Annual Meeting and was approved.

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding shares of the Common Stock beneficially owned as of April 9, 2002, by (i) each person or a group, known to the Company, who beneficially owns more than 5% of the Common Stock, (ii) each of the Company's directors, and (iii) all executive officers and directors as a group:

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Name	Number of Shares Beneficially Owned(1)	Percent of
William Bossung c/o Latin American Casinos, Inc. 2000 NE 164th Street North Miami Beach, FL 33162	851,403 (2)	12.9
Todd Sanders c/o Latin American Casinos, Inc. 2000 NE 164th Street North Miami Beach, FL 33162	730,260 (3)	11.9
Augustine Fund, L.P. 141 W. Jackson, Suite 2182 Chicago, IL 60604	1,621,234 (4)	24.8
M.H. Meyerson & Co. Inc. 525 Washington Boulevard Jersey City, NJ 07503	945,890 (5)	13.3
Geraldine Lyons c/o Latin American Casinos, Inc. 2000 NE 164th Street North Miami Beach, FL 33162	226,224 (6)	3.4
Angel Garcia Mariscal Sucre 321 Miraflores Lima, 18 Peru	75,000 (7)	1.1
Kenneth Koock 525 Washington Boulevard Jersey City, NJ 07503	263,750 (8)	4
Jose A. Caballero c/o Latin American Casinos, Inc. 200 NE 164th Street North Miami Beach, FL 33162	35,000 (9)	

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Name	Number of Shares Beneficially Owned(1)	Percent of
Jeffrey A. Felder c/o Latin American Casinos, Inc. 2000 NE 164th Street North Miami Beach, FL 33162	50,092 (10)	
Dennis R. Barry c/o Latin American Casinos, Inc. 2000 NE 164th Street North Miami Beach, FL 33162	30,000 (11)	

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Michael Iscove c/o Latin American Casinos, Inc. 2000 NE 164th Street North Miami Beach, FL 33162	50,000 (12)	
All Executive Officers and Directors as a group	1,821,755	20.8

\* Less than 1%

- (1) Under Rule 13d-3 under the Exchange Act, certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding at April 9, 2002.
- (2) Mr. Bossung is the Chief Operating Officer and a Director of the Company. Includes 125,000 shares which may be acquired upon exercise of Company's publicly traded warrants.
- (3) Mr. Sanders is the Chief Executive Officer and a Director of the Company. Includes 125,000 shares which may be acquired upon exercise of Company's publicly traded warrants.
- (4) Based upon filings by Augustine Fund, L.P. with the Securities and Exchange Commission. Includes 285,714 shares owned by Brian D. Porter. Includes 28,571 shares and 45,000 shares which may be acquired upon exercise of the Company's private warrants owned by David M. Matteson at a price of \$1.75 per share. Mr. Porter and Mr. Matteson are either controlling members, directors and officers of Augustine Capital, the general partner of Augustine Fund L.P.
- (5) Includes 554,050 shares of stock which may be acquired upon exercise of the Company's publicly traded warrants, and 103,000 shares of stock which may be acquired upon exercise of investment banker warrants exercisable at \$1.06 per share.
- (6) Includes 10,000 shares which may be acquired upon exercise of Company options which are exercisable at \$1.75 per share, and 41,024 shares of Common Stock held in trust for grandchildren.
- (7) Includes 65,000 shares which may be acquired upon exercise of Company options which are exercisable at \$1.00 per share and 10,000 shares which may be acquired upon exercise of Company options which are exercisable at \$1.75 per share.
- (8) Includes 100,750 shares which may be acquired upon exercise of investment banker warrants exercisable at \$1.06 per share.
- (9) Includes 25,000 shares which may be acquired upon exercise of Company options exercisable at \$1.06 per share and 10,000 shares which may be acquired upon exercise of Company options exercisable at \$1.75 per share.

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- (10) Includes 5,000 shares which may be acquired upon exercise of Company options exercisable at \$1.06 per share and 25,000 shares which may be acquired upon exercise of Company options exercisable at \$1.75 per share.
- (11) Includes 5,000 shares which may be acquired upon exercise of Company options exercisable at \$1.06 per share and 25,000 shares which may be acquired upon exercise of Company options exercisable at \$1.75 per share.
- (12) Includes 50,000 shares which may be acquired upon exercise of the Company's private warrants.
- (13) Percentage is based upon a total number of shares assuming conversion in full of the Company's Convertible Debentures, and exercise in full of all of the Company's publicly traded warrants and private warrants. Also assumes the exercise of 237,500 of the Company's options into shares of Common Stock.

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### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company advanced \$150,000 to Lloyd Lyons, the Chief Executive Officer in 1993. Mr. Lyons repaid \$21,000 during 1994, \$4,000 during 1997, \$8,000 in 1998 and \$2,000 in 1999. All interest charged through December 31, 1999, had been paid by Mr. Lyons. Interest was being charged at a rate of prime plus 1% per annum.

In October 2001 the Company advanced loans to companies controlled by Todd Sanders (CEO) and William Bossung (COO) in the aggregate amount of \$400,000 which is due in October 2006. Interest on these notes are payable quarterly and computed at the prime rate plus 1% (5.75% at December 31, 2001).

In June 2001 the company advanced \$40,000 to Jeffrey Felder. This note is due on the earlier of the officer's termination or June 2002 and is repayable as reductions of severance arrangements included in his employment contract. Interest is payable quarterly and calculated at the prime rate plus 1%.

In December 2000 the Company entered into an agreement with Delano Group Securities LLC (which is owned, controlled and/or managed by certain affiliates of Augustine Fund L.P.) to render investment banking, capital formation, consulting and advisory services. Pursuant to this agreement Delano received warrants to purchase 1,500,000 shares of Common Stock at a price of \$1.75 per share. These warrants expire on December 11, 2005.

In December 2000 the Company issued and sold \$3,500,000 principal amount of 6% Convertible Debentures. These Convertible Debentures are convertible into shares of Common Stock at a price of \$1.75 per share and mature on June 13, 2001. The following officers and greater than five percent owners of Common Stock are owners of the Convertible Debentures: Todd Sanders, Chief Executive Officer, Director, \$150,000 principal amount of Convertible Debentures; William Bossung, Chief Operating Officer, Director, \$350,000 principal amount of Convertible Debentures; John Porter, controlling member, director or officer of Augustine Capital Augustine Capital, the general partner of Augustine Fund L.P. a greater than five percent owner, \$500,000 principal amount of Convertible Debentures; David Matteson, controlling member, director or officer of Augustine Capital Augustine Capital, the general partner of Augustine Fund L.P. a greater than five percent owner, \$50,000 principal amount of Convertible Debentures; and Augustine Fund, L.P., greater than five percent owner, \$800,000 principal amount of Convertible Debentures.

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### SUBSEQUENT EVENTS

In February 2002 the holders of 3,000,000 of the Company's private warrants (including Todd Sanders (CEO) and William Bossung (CFO)) agreed to terminate and cancel these warrants.

In March 2002, the company announced it had signed a definitive security exchange agreement to acquire Omega Music Group, LLC. The consummation of the transactions is conditional upon, among other things, the legal, financial and business due diligence by all partners involved.

In March 2002 the Nasdaq Stock Market halted trading of the Company's securities due to a request for information.

In March 2002 the Company restated its financial statements through the filing of an amendment to its annual report for the year ended December 31, 2000, and quarterly reports for the quarters ended, March 31, 2001, June 30, 2001, and September 30, 2001.

In April 2002 an aggregate of \$3,350,000 of the Company's Convertible Debentures has been converted into shares of the Company's Common Stock as per the terms of the Debentures.

### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Index of exhibits as required by Item 601 of Regulation S-B.

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Exhibit No. -----	Description of Exhibit -----
3.1	Articles of Incorporation (Delaware), as amended
3.2	Certificate of Merger Merging Repossession Auction, Inc. (Florida corporation) and Repossession Auction, Inc. (Delaware corporation)
3.3	Bylaws
3.4	Certificate of Amendment to Certificate of Incorporation
4.3	Form of publicly traded Warrant Agreement
4.4	Form of private warrant dated December 12, 2000
4.5	Form of 6% Convertible Debenture dated December 14, 2000
4.6	Form of Amendment to 6% Convertible Debenture.
4.7	Amendment to Publicly Traded Warrant
10.3	Employment Agreement between the Company and Lloyd Lyons dated January 1, 1997(1)
10.4	1994 Stock Option Plan
10.5	Lease dated September 9, 1998 between Company and Oska Partnership re: executive offices.

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- 10.6 Agreement dated July 12, 1998 with Tabacelera Panamericano Y Del Caribe S.A. (with certain portions omitted pursuant to Rule 24b-2)
- 10.7 Agreement dated July 20, 1998 with Tabacos DeOriente (with certain portions omitted pursuant to Rule 24b-2)
- 10.8 Agreement dated July 20, 1998 with Tabacos Del Caribe (with certain portions omitted pursuant to Rule 24b-2)
- 10.9 Agreement dated July 12, 1998 with Tacunisa (with certain portions omitted pursuant to Rule 24b-2)
- 10.10 Agreement dated July 12, 1998 with Tabanica, S.A. (with certain portions omitted pursuant to Rule 24b-2)
- 10.11 Form of Employment Agreement between the Company and Todd Sanders dated March 2001
- 10.12 Form of Employment Agreement between the Company and William Bossung dated March 2001
- 10.13 Form of Agreement between the Company and Delano Group Securities LLC dated December 2000
- 10.14 Form of Convertible Debenture Purchase Agreement dated December 14, 2001
- 21.1 List of Newly Formed Subsidiaries
- 99.1 Loan Agreement with Alliance Financial Network, Inc. dated October 2001
- 99.2 Loan Agreement with Devenshire Management Corporation dated October 2001
- 99.3 Promissory Note dated August 2001
- 99.4 Sale and Conveyance Agreement (Superb, Saskatchewan) dated August 2001
- 99.5 Notice of Assignment (Superb, Saskatchewan) dated August 2001

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Exhibit No. -----	Description of Exhibit -----
99.6	Transfer of Specified Undivided Interest In Agreement (Superb, Saskatchewan) dated August 2001
99.7	Sale and Conveyance Agreement (Altares, British Columbia) dated September 2001
99.8	Partial Assignment and Novation Agreement (Altares, British Columbia) September 2001
99.9	Notice of Assignment (Altares, British Columbia) dated September 2001

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(b) Reports on Form 8-K

Form 8-K dated October 29, 2001. Item 5.

Form 8-K dated November 16, 2001. Item 5.

Form 8-K dated December 3, 2001. Item 4.

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
-----

AUDIT REPORT  
-----

AS OF DECEMBER 31, 2001  
-----

NUWAY ENERGY, INC. AND SUBSIDIARIES  
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INDEPENDENT AUDITOR'S REPORT  
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To the Board of Directors of:

NuWay Energy, Inc. (F/K/A Latin American Casinos, Inc.) and Subsidiaries

We have audited the accompanying consolidated balance sheet of NuWay Energy, Inc. and Subsidiaries as of December 31, 2001 and 2000 the related consolidated statements of operations, changes in stockholder's equity and cash flows for the years ended. These consolidated financial statements are the responsibility on the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NuWay Energy, Inc. and subsidiaries as of December 31, 2001 and 2000 the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in note 10 to the financial statements the company reduced its asset values and has charged current operations with a \$3,015,182 asset impairment charge.

The accompanying consolidated financial statements have been prepared assuming that the company will continue as a going concern. As discussed in note 13 to the financial statements the company's significant operating losses raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Shubitz Rosenbloom & Co., P.A.

Miami, Florida  
April 10, 2002

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NuWay ENERGY, INC. AND SUBSIDIARIES

-----  
CONSOLIDATED BALANCE SHEETS

-----  
AS OF DECEMBER 31, 2001 AND 2000

-----  
ASSETS

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	December 31, 2001	December 31, 2000
	-----	-----
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 440,827	\$ 4,422,715
Accounts Receivable, Net of \$25,000 of Allowance for Doubtful Accounts in 2001 and 2000	234,054	732,382
Inventory	475,291	539,560
Prepaid Expenses and Other Current Assets	156,958	136,717
	-----	-----
Total Current Assets	1,307,130	5,831,374
	-----	-----
PROPERTY AND EQUIPMENT - NET	2,360,135	3,708,795
	-----	-----
OTHER ASSETS		
Accounts Receivable Long-Term, Net of Allowance For Doubtful Accounts of \$150,000 in 2001 and \$125,000 in year 2000	450,000	650,000
Deposits	26,693	11,609
Notes Receivable - Officers and Affiliates	440,000	--
Other Assets	6,374	46,208
	-----	-----
Total Other Assets	923,067	707,817
	-----	-----
TOTAL ASSETS	\$ 4,590,332	\$ 10,247,986
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
-----		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 985,776	\$ 190,703
Debentures Payable, net of deferred debt issuance costs of \$64,500 in year 2000	2,400,004	3,435,500
	-----	-----
Total Current Liabilities	3,385,780	3,626,203
	-----	-----
COMMITMENTS AND CONTINGENCIES	--	--
	-----	-----
Total Liabilities	3,385,780	3,626,203
	-----	-----
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	3,402	2,831
Additional Paid-In Capital	15,137,225	13,796,612
Accumulated Other Comprehensive Income (Loss)	(544,539)	(560,326)
Retained Earnings (Deficit)	(13,264,532)	(6,612,099)
Treasury Stock, at cost	(127,004)	(5,235)
	-----	-----
Total Stockholders' Equity	1,204,552	6,621,783

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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,590,332	\$ 10,247,986
	=====	=====

See Independent Auditor's Report.  
The accompany notes are an integral part of this statement.

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
-----  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
-----  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
-----

	Common Stock			Accumulated Other Comprehensive Income (Loss)	Retained Earning (Deficit)
	Number of Shares	Par Value \$.00067	Additional Paid-In Capital		
BALANCE JANUARY 1, 2000	3,300,000	\$ 2,211	\$ 10,203,732	\$ (415,193)	\$ (1,912,000)
ADJUSTMENT FOR FOREIGN CURRENCY TRANSLATIONS	--	--	--	(145,133)	
WARRANTS ISSUED IN EXCHANGE FOR SERVICE	--	--	1,991,700	--	
COMPENSATION EXPENSE ON VARIABLE OPTIONS PLAN	--	--	491,700	--	
COMPENSATION ON RE-PRICING OF STOCK OPTIONS	--	--	34,900	--	
EXERCISE OF STOCK OPTIONS	725,000	489	724,514	--	
STOCK ISSUED AS COMPENSATION	200,000	134	349,866	--	
NET (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2000	--	--	--	--	(4,699,000)
BALANCE DECEMBER 31 2000	4,225,000	\$ 2,831	\$ 13,796,612	(\$ 560,326)	(\$ 6,612,000)
COMPREHENSIVE (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2000	--	--	--	--	

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ADJUSTMENT FOR FOREIGN CURRENT TRANSACTIONS	--	--	--	15,787	
STOCK ISSUED FOR SERVICES	187,500	126	405,524	--	
REPRICING ON VARIABLE OPTION PLAN	--	--	(230,460)	--	
TREASURY STOCK	--	--	--	--	
CONVERSION OF DEBENTURES	666,283	446	1,165,549	--	
NET (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2001	--	--	--	--	\$ (6,652,
BALANCE DECEMBER 31, 2001	\$ 5,078,783	\$ 3,403	\$ 15,137,225	\$ 544,539	\$ 13,264,
COMPREHENSIVE (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2001					

See Independent Auditor's Report.  
The accompany notes are an integral part of this statement.

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
-----  
CONSOLIDATED STATEMENTS OF OPERATIONS  
-----  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
-----

	2001	2000
	-----	-----
Revenue		
-----		
Rental Income	\$ 461,778	\$ 669,651
Sales of Cigars	170,709	163,886
Oil Sales	117,355	--
	-----	-----
Total Revenues	\$ 749,842	\$ 833,537
	-----	-----
Cost and Expenses		
-----		
Selling, General & Administration	3,973,143	2,595,199
Depreciation, Depletion and Amortization	176,098	268,462
Cost of Cigar Sales	119,409	119,183

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Expenses Associated With Options		
Stocks Issued for Services and Warrants	175,064	2,518,500
Lease Operating Costs	71,245	--
Site Restoration Costs	7,664	--
Impairment Charges	3,015,182	64,000
	-----	-----
Total Cost and Expenses	\$ 7,537,805	\$ 5,565,344
	-----	-----
Operating Income (Loss)	(6,787,963)	(4,731,807)
	-----	-----
Other Income (Expenses)		
-----		
Interest Income	135,530	35,957
	-----	-----
Net Other Income (Expenses)	135,530	35,957
	-----	-----
Income (Loss) Before Income Taxes	(6,652,433)	(4,695,850)
Income Taxes (Provision) Benefit	(--)	(3,473)
	-----	-----
Net Income (Loss)	(\$6,652,433)	(\$4,699,323)
	=====	=====
Earnings (Loss) Per Common Share and		
-----		
Common Share Equivalent Basic And		
-----		
Fully Diluted		
-----		
Common Share Equivalent Outstanding	4,255,903	3,367,200
	=====	=====
Net Income (Loss) per share	(\$ 1.56)	(\$ 1.40)
	=====	=====

See Independent Auditor's Report.  
The accompany notes are an integral part of this statement.

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
-----  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
-----  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
-----

2001                      2000

-----                      -----

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CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	(\$6,652,433)	(\$4,699,323)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Off Set of Officers Notes Receivable and Accrued Compensation	--	115,000
Depreciation, Depletion and Amortization	176,098	268,462
Issuance of Stock for Services & Interest	471,650	350,000
Asset Impairment Charges	3,015,182	64,000
Issuance of Warrants And Options Accounted for As Compensation and Repricing Of Options	(230,462)	2,518,500
Loss on Property in Nicaragua	--	219,505
Amortization of Deferred Debt Issue Costs	64,500	--
Changes in Assets - (Increase) Decrease:		
Accounts Receivable	698,328	303,641
Prepaid Expenses and Other Current Assets	(20,241)	75,712
Inventory of Cigars	64,269	105,612
Changes in Liabilities - Increase (Decrease):		
Accounts Payable and Accrued Expenses	795,073	(947)
Foreign Income Tax Payable	--	--
	-----	-----
Net Cash Provided by (Used In) Operating Activities	(1,618,036)	(679,838)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on Sale of Fixed Assets	--	358,206
Fixed Assets Increase	(1,842,620)	(50,960)
Other Assets	24,750	(20,283)
Account of Treasury Stock	(121,769)	--
Issuance of Notes Receivable to Officers And Affiliates	(440,000)	--
	-----	-----
Net Cash Provided By (Used In) Investing Activities	(2,379,639)	286,963
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Expenditures incurred in connection with Private Placement	--	(64,500)
Issuance of Debentures	--	3,500,000
Exercise of Stock Options	--	725,000
	-----	-----
Net Cash Provided From Financing Activities	--	4,160,500
	-----	-----
Effect of Exchange Rate Changes on Cash and Cash Equivalents	15,787	(145,133)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,981,888)	3,622,492
CASH AND CASH EQUIVALENTS - BEGINNING	4,422,715	800,223
	-----	-----
CASH AND CASH EQUIVALENTS - ENDING	\$ 440,827	\$ 4,422,715
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:

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-----		
Cash Paid During the Period for:		
Interest	\$           --	\$           --
	=====	=====
Income Taxes, Foreign	\$           --	\$         3,473
	=====	=====
Conversion of Debentures to Capital	\$ 1,165,995	\$           --
	=====	=====

See Independent Auditor's Report  
The accompany notes are an integral part of this statement.

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
-----  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
-----  
AS OF DECEMBER 31, 2001 AND 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. In 1994, the company entered in the gaming and casino business, primarily in Peru and other Latin American countries renting casino type slot machines.

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 that are in the gaming and casino business in Latin America (See Note 9C). The operations include the renting of casino slot machines to casino operators. The company had acquired in total approximately 8,000 slot machines and related parts. It had been the company's policy to capitalize all cost necessary to place the equipment on rental which included transportation, duty and refurbishing costs. In year 2001 as a result of deteriorating market conditions, obsolesance of the slot machines and a mandate by the Peruvian Government, a valuation of all gaming equipment was performed and as a result as further discussed in note 10, an asset impairment charge was recorded.

In September 1997, the company incorporated World's Best Rated Cigar Company (World) as a wholly-owned subsidiary of NuWay Energy, Inc. to distribute quality cigars. Is was originally intended that the company would market premium cigars at "off price", and would 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 at December 31, 2001, the company had expended approximately \$1,196,000 in regard to the cigar operations. Such expenditures have been included in the accompanying consolidated financial statements as follows:

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Cash and cash Equivalents	\$	23,000
Accounts Receivable		5,000
Prepaid and Other Current Assets		33,000
Inventory		475,000
Fixed Assets, net of Accumulated Depreciation		35,000
Other Assets		3,000
Aggregate Accumulated Deficit		622,000
		-----
Total Investment	\$	1,196,000
		=====

In year 2001 the company incorporated NuWay Resources, Inc., as a Nevada Corporation and NuWay Resources of Canada, Ltd., a Canadian Company, both wholly owned subsidiaries of NuWay Energy, Inc. These corporations were formed to pursue opportunities in the oil and gas exploration industry, with its principal activity in the exploration, development and product of oil and gas properties in Western Canada.

See Independent Auditor's Report.

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NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2001 AND 2000

Note 1. Summary of Significant Accounting Policies (Continued)

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. (formerly known as Latin American Casinos, Inc. S.A.) a Peruvian Corporation, Latin American Casinos of Colombia LTDA, a Colombian Corporation, Latin American Casinos of Nicaragua, World's Best Rated Cigars, Inc., NuWay Resources, Inc., a Nevada Corporation and NuWay Resources of Canada, Ltd., a Canadian Company. Latin American Casinos of Nicaragua ceased operations.

All material inter-company transactions, balance and profits have been eliminated.

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 betterment's 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

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gain or loss is included in the results of operations. Whenever there is a change in events or circumstances, the Company performed an impairment analysis by comparing the future undiscounted cash flows and if they are less than the carrying amount, an impairment charge is recorded to reduce the assets to its estimated fair value. In addition, the company periodically reviews the costs associated with undeveloped oil and gas properties and mineral rights to determine whether they are likely to be recovered, when such costs are not likely to be recovered, such costs are transferred to the depletable pool of oil and gas cost.

See Independent Auditor's Report.

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### NUWAY ENERGY, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2001 AND 2000

Note 1 Summary of Significant Accounting Policies (Continued)

#### D Oil and Gas Operations

Substantially all of the company's exploration and development activities related to oil and gas are conducted jointly with others and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

The net carrying cost of the company's oil and gas properties in producing cost centers is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowance, less future general and administrative costs, financing costs and income taxes. Future net revenues are calculated using year end prices that are not escalated or discounted. For Canadian GAAP future net revenues are undiscounted, whereas, for U.S. GAAP future net revenues are discounted at 10%.

In conducting its ceiling test evaluation the Company followed generally accepted accounting standards which provided for a two-year exemption from write-down where the purchase price of reserves had been determined on a basis which provided a higher amount than the ceiling test value, and where the excess was not considered to represent a permanent impairment in the ultimate recoverable amount. If the two year exemption had not been used, the Company would have taken a write-down of \$845,000 based on prices at December 31, 2001 of \$11.316 per bbl of heavy oil and \$3.301 per Mmbru of gas. The Company qualified for the exemption in connection of its acquisitions of resource properties in August and September of 2001.

Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.



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Future site restoration cost for working interest properties are being provided on a unit of production basis. The provision is based on current cost of complying with existing legislation and industry practice for site restoration and abandonment. The estimated cost of abandoning carried interest wells are not included in future site restoration cost. This cost would be paid by the working interest partners and charged to the carried interest account.

See Independent Auditor's Report.

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
-----  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
-----  
AS OF DECEMBER 31, 2001 AND 2000  
-----

Note 1 Summary of Significant Accounting Policies (Continued)  
-----

E Revenue Recognition  
-----

Revenue is recognized monthly on the rental of slot machines as the slot machines are placed in service. Typical rental arrangements for slot machines are for one year or less in duration with consistent rent income earned over the life of the lease. As a general rule the company does not incur any significant direct cost with the inception of the lease. All leasing expense, payroll and maintenance of equipment are charged to operations as incurred. Revenue on the sale of cigars are recorded when customer orders are shipped. The cost of cigar sales represents the direct cost of the product sold.

The Company recognizes revenue on its working and royalty interest properties from the production of oil and gas in the period the oil and gas are sold, net of royalty payments due.

Revenue under carried interest agreements is recorded in the period when the net proceeds become receivable and collection is reasonable assured. Under the carried interest agreements the Company records oil and gas revenues net of operating and capital cost incurred by the working interest participants. The time the net revenues become receivable and collection is reasonably assured depends on the terms and conditions of the relevant agreements and the practices followed by the operator. As a result, net revenues may lag the production month by one or more months.

F Statement of Cash Flows  
-----

For purposes of this statement, the company considers all liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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

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Basic earnings per common share and common share equivalents 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 (Note 5, 6, 7) were anti-dilutive, and excluded from the computation of basic and diluted earning (loss) per share. In the future the convertible debt, and these warrants, stock options, and underwriting options could be dilutive and as such future earnings per share could be diluted by 6,941,213 additional shares.

H 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 \$238,000 and \$4,320,000 as of December 31, 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.

See Independent Auditor's Report.

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
-----  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
-----  
AS OF DECEMBER 31, 2001 AND 2000  
-----

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

I 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 uncollectible accounts receivable, obsolescence, equipment depreciation and amortization, taxes, among others.

J Foreign Currency Translation  
-----

For most international operations, assets and liabilities are translated into U.S. dollars at year-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during

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the year. Translation adjustments, resulting from fluctuations in exchange rates are recorded as a separate component of shareholders' equity, as other comprehensive income (loss).

K Inventories

-----

Inventory of cigars and related material are stated at the lower of average cost or market. The company has in excess of one year supply of cigar inventory but believes it can sell the entire inventory within one year at a normal gross profit.

L Valuation of Company's Stock Options and Warrants

-----

As permitted under the Statement of Financial Accounting Standards No. 123 (SFAS No. 123), Accounting for Stock-Based Compensation, the Company accounts for its stock-based compensation to employees in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issured to Employees. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Certain pro forma net income and EPS disclosures for employee stock options grants are also included in the notes to the financial statements as if the fair value method as defined in SFAS No 123 had been applied. Transactions in equity instruments with non-employees for goods or services are accounted for by the fair value method.

M Advertising

-----

The company expenses all advertising costs as incurred. Included in the statement of operations is approximately \$111,000 and \$110,000 advertising expense charged to operations for the years ended December 31, 2001 and 2000, respectively. Substantially all advertising expenses incurred were paid with barter transactions.

N Reclassifications

-----

Certain amounts reported in prior financial statements have been reclassified to conform to current classification. In that regard accounts receivable that are in litigation and may take more that one year to collect have been reclassified as a long-term asset instead of a current asset.

See Independent Auditor's Report.

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NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2001 AND 2000

Note 1. Summary of Significant Accounting Policies (Continued)

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O Restatements

The Company had restated its previously issued financial statement for the year ended December 31, 2000 for the following adjustments:

1. Recognition of an additional impairment loss on the sale of the Miami Property, \$64,000.
2. Adjustment of beginning additional paid in Capital an retained earnings deficit for expense account with options and warrants issued in 1998, \$284,175.
3. Adjustment of current earnings and additional paid in capital for the cost of warrants issued, compensation expenses on variable option plan and compensation received on repricing of stock option \$2,518,500 issued in years 1999 and 2000.

Note 2. Property and Equipment

Property and Equipment are summarized as follows:

	December 31, 2001	December 31, 2000
	-----	-----
Exploration and Development Equipment	\$ 933,624	\$ --
Oil & Gas Properties At Cost	752,067	--
Land & Building (See Note 10)	35,000	271,363
Rental Equipment (See Note 10)	1,039,008	4,197,282
Leasehold Improvements	--	26,027
Furniture, Fixtures & Office Equipment	151,818	141,914
Transportation Equipment	2,862	48,510
	-----	-----
Total	2,914,379	4,685,096
Less: Accumulated Depreciation	554,244	976,301
	-----	-----
Property and Equipment - Net	\$2,360,135	\$3,708,795
	=====	=====

The estimated useful lives of property and equipment, is as follows:

Rental Equipment	5-7 years
Special Use Buildings	10 years
Commercial Buildings	30 years
Leasehold Improvements	7 years
Furniture, Fixtures and Office Equipment	5-7 years
Transportation Equipment	5 years

Depletion is provided on cost accumulated in producing cost centers including production equipment using the unit of production method. For purposes of the depletion calculation, gross proved oil and gas reserves as determined by outside consultants are converted to a common unit of measure on the basis of their approximate relative energy content.

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
-----  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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AS OF DECEMBER 31, 2001 AND 2000  
-----

Note 2. Property and Equipment (Continued)  
-----

Included in Rental Equipment in year 2000 is approximately \$3,000,000 of parts and supplies purchased or obtained from other machines previously disassembled for parts. In year 2001 as a result of market conditions and obsolescence the company reviewed all costs associated with its gaming equipment operations and have determined that approximately \$70,000 of workable parts represented a fair value as replacement part cost. As further discussed in note 10 the company recorded an impairment charge of \$2,789,000 on gaming equipment.

Rent expense for the years ended December 31, 2001 and 2000 were \$188,000 and \$92,000, respectively.

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

Note 3. Notes Receivable - Stockholders and Affiliates  
-----

The company advanced \$150,000 to one of the stockholders in 1993. The stockholder repaid \$21,000 during 1994, \$4,000 during 1997, \$8,000 in 1998 and \$2,000 in 1999. All interest charged through December 31, 1999, has been paid by the stockholder. Interest was being charged at a rate of prime plus 1% per annum. In August 2000, the note receivable was forgiven and additional compensation due to the Estate of the shareholder was recorded.

In October 2001 the company advanced loans to two companies controlled respectively by Todd Sanders (CEO) and William Bossung (CFO) in the aggregate amount of \$400,000 which is due in October 2006. Interest on these notes are payable quarterly and computed at the prime rate plus 1% (5.75% at December 31, 2001). Included in the statement of operations is \$5,400 of accrued interest income on these notes.

In June 2001 the company advanced \$40,000 to another officer. This note is due on the earlier of the officer's termination or June 2002 and is repayable as reductions of severance arrangements included in his employment contract (See Note 9B). Interest is payable quarterly and calculated at the prime rate plus 1%. Interest on this note has been paid through December 31, 2001.

Note 4. Warrants and Options and Stock Issued for Services  
-----

As of December 31, 2000, the company has outstanding 1,725,000 five year publicly traded warrants that were issued as part of the company's initial public offering to purchase one share of the company's common

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stock at an exercise price of \$3.00 by December 11, 2001, which has been extended to December 11, 2002. In December 2000 the board of directors authorized the issuance of an additional 3,300,000 private five year stock warrants to acquire common stock at \$1.75 per share. The issuance of the private warrants were part of the arrangement with the executive officers of the corporation who also received restricted stock aggregating 200,000 shares, compensation was recorded on the arrangement equal to the market value of the restricted stock, \$350,000. The remaining warrants were issued for service and were valued at \$1,991,700 using the Black-Scholes option pricing model. This amount has been recorded in the statement of operations in year 2000. In year 2002 3,000,000 of the 3,300,000 warrants issued in year 2000 were cancelled and approximately \$1,650,000 of corporation's expenses that was recorded in year 2000 will be reversed in year 2002 (See Note 12).

See Independent Auditor's Report.

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### NUWAY ENERGY, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2001 AND 2000

#### Note 4. Warrants and Options and Stock Issued for Services (Continued)

In year 2001 the company issued or was committed to issue 187,500 shares of stock for services. Expenses were recorded based on the value of the stock, which ranged from \$2.51 per share to \$1.98 per share, for a total consideration of \$405,524.

#### Note 5. 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, Latin American Casinos, Inc. 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. These warrants vest and become irrevocable as follows: 75,000 warrants with signing of the agreement, 75,000 warrants 180 days after the signing of the agreement and an additional 75,000 warrants 365 days after the signing of the agreement. At the date of issuance and the subsequent re-pricing date the warrant price equaled or exceeded the market value of the common stock. The incremental value of the re-priced warrants over the current value of the warrants before the repricing was approximately \$35,000, using the fair values calculated with the Black-Scholes option pricing model. This amount is recorded in the statement of operations in year 2000.

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### Note 6. 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 for 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 of \$1.00 per share and canceled 10,000 options issued in 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.

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### NUWAY ENERGY, INC. AND SUBSIDIARIES

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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AS OF DECEMBER 31, 2001 AND 2000

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### Note 6. Incentive Stock Option Plan (Continued)

-----

#### Incentive Stock Options Outstanding

-----

	Amount	Price Per Share
	-----	-----
Options Outstanding at January 1, 2000 and 2001	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, 2001	237,500	
	=====	

All outstanding warrants and non-qualified options and incentive stock options were exercisable at December 31, 2001.

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The following table shows the years in which all of the company's options and warrants (as discussed in Notes 4, 5 and 6) will expire:

Year Ending December 31	Range		Number of Shares	Weighted Average Exercise Price
	Low	High		
2001	\$ 3.00	\$ 3.00	1,725,000	\$ 3.00
2002	1.00	1.00	172,500	1.00
2003	1.00	1.00	310,000	1.00
2004	--	--	--	--
Thereafter	1.06	1.75	3,415,000	1.74
Total			5,622,500	

Incentive Stock Options Outstanding

The weighted average fair value of options granted during fiscal 2000 was \$1.07 per share. All options were granted at an exercise price that equaled the market price. No options were granted in year 2001.

The Company adopted the provisions so SFAS No. 123, Accounting for Stock Based Compensation, effective for fiscal year 1997 for all issuances of stock options to non-employees of the Company. The Company will continue to apply APB Opinion No. 25 (Opinion 25), Accounting for Stock Issued to Employees for all issuances stock options to its employees. In June 1999, the Company adopted the Financial Accounting Standards Board Interpretation Number 44, which requires re-priced options be re-measured for expenses based on the quarter end stock price. Expenses are also re-measured upon exercise for the options. The Company recorded an additional expense of approximately \$490,000 in year 2000 and a reduction of expenses of \$230,000 in year 2001.

See Independent Auditor's Report.

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
 -----  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 -----  
 AS OF DECEMBER 31, 2001 AND 2000  
 -----

Note 6. Incentive Stock Option Plan (Continue)

Had compensation cost for the Plan been determined based upon the fair value at the grant date for options granted consistent with the provision of SFAS 123, the Company's net loss and net loss per share would have been reduced to the pro forma amounts indicated below:



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	2001 -----	2000 -----
Net income - as reported	\$ (6,652,433)	\$ (4,699,323)
Net income - pro forma	\$ (6,652,433)	\$ (6,429,924)
Loss per share - as reported:		
Basic and Diluted	\$ (1.56)	\$ (1.40)
Loss per share - pro forma:		
Basic and Diluted	\$ (1.56)	\$ (1.90)

The fair value of each option granted under the Plan was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2000 -----
Risk - free interest	\$ 5.80%
Expected life	5 years
Expected volatility	68.19%
Expected dividend	--

Note 7. 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 which had been subsequently extended to December 13, 2001 and are Convertible into common stock at an exercise price of \$1.75 per share. The company incurred approximately \$64,500 of costs in regard to this private placement and the debt issuance costs were amortized over the life of the debentures. Included as part of selling general and administration expenses in the statement of operations for year 2001 is \$64,500 amortization of deferred debt issue cost. The interest on the debentures is payable either in cash or in additional shares of common stock, at the discretion of the company. The conversion price of the debentures was determined by the approximate market value of the common stock at the date of issuance.

Prior to December 31, 2001 approximately \$1,100,000 of debenture holders converted their debentures into common stock for the value of their debentures and the accrued interest of \$66,000. At December 31, 2001 included in accounts payable was \$144,000 of accrued interest on these debentures (See Note 12).

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

As of December 31, 2001 the company had available for income tax purposes unused net operating loss carry forwards which may provide future tax benefits of \$10,666,000 expiring through the year 2016. No valuation allowance has been provided for unremitted foreign profits. No provision had been provided for deferred taxes in the accompanying financial statements. The current provision for taxes, if any, are based on tax provision based for foreign operations.

See Independent Auditor's Report.

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NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2001 AND 2000

Note 9. Commitments and Contingencies

A Litigation

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, operations, financial position or corporate liquidity.

B Employment Agreements

In January 1997, the company entered into a five year employment agreement with Lloyd Lyons which provided in part that in the event of either a merger, consolidation, sale or conveyance of substantially all the assets of the company which results in the discharge of Mr. Lyons, he would be entitled to 200% of the balance of payments remaining under the contract. The contract provided the salary continuation for a period of two years after the death of the officer. In January 2000, Mr. Lyons passed away and effective August 2, 2000 the company amended its employment contract with the surviving widow and primary beneficiary of the Estate of Lloyd Lyons, where-in the salary continuation clause included in his contract was replaced with a severance arrangement which requires the company to pay the spouse \$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. Upon termination of the employee contract the company will record additional compensation at the greater of the market price of the company stock or the guaranteed price stipulated in the contract. The contract revisions further provided that the officer loan of \$115,000 be recorded as additional compensation as required by the officer compensation agreement. Effective October 29, 2001 Mrs. Lyons tendered her resignation and based upon the terms of her contract severance payments of \$350,000 had been recorded with \$333,000 included in accounts payable and accrued expenses.

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NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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AS OF DECEMBER 31, 2001 AND 2000  
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## Note 9. Commitments and Contingencies (Continued)

-----

In January 2000 the company entered into two additional employment contracts, 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 will 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. Upon termination of the employee contract the company will record additional compensation at the greater of the market price of the company stock or the guaranteed price stipulated in the contract.

The company entered into two additional one-year employment agreements with the Chief Operating Officer and the Chief Executive Officer requiring the company issue to each 100,000 shares of stock and 750,000 warrants to purchase additional common stock at \$1.75 per shares (See Note 12).

## C Foreign Assets

-----

The accompanying consolidated balance sheets for the period ended December 31, 2001, includes assets relating to the company's slot machine operations in Peru and Colombia of \$893,000 and \$774,000 respectively. Although these countries are considered politically and economically stable, it is possible that 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 Peru the government periodically requires companies to revalue its assets based on many factors, including, age of equipment and future cash flow capability. The company engaged an independent appraisal company to revalue all gaming equipment, a copy of such report was made available to the Peruvian government. As further discussed in note 10, an asset impairment charge was recorded to adjust all gaming equipment to the fair market value as determined by the independent appraisal report.

Revenue from rental operations is entirely earned in Columbia and Peru.

The assets of the oil and gas operations, which aggregate approximately \$1,783,000 are entirely in Canada. All revenue from oil and gas is earned in Canada.

Approximately \$300,000 of the company's inventory of cigars is being stored in South America, awaiting instructions for delivery to the Miami distribution facility.

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

D Lease Commitment  
 -----

The company had been obligated for a three year lease for its Miami office premises, which expired in September, 2001 and required monthly rent of \$2,500. This lease has not been renewed. In addition, the company was obligated for a two year lease for its warehouse space, at a monthly rent of \$1,400. This lease expired; however, the company has negotiated an arrangement whereby the original term of the lease remains intact and can be terminated by either party with a three month notification. 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 Asset Impairment Charges  
 -----

In March 2001, the company sold its Miami property for an aggregate consideration of \$139,000 and recorded an additional loss on disposition of \$64,000. The \$64,000 loss had been recorded as an impairment charges in the restated financial statement for year 2000. 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. The impairment cost associated with gaming equipment parts was the result of non usable parts previously recorded as part of slot machine fixed asset costs on the accompanying balance sheet. The impairment costs on the gaming equipment of \$100,000 was the result of management's on-going valuation as to the utility of gaming equipment in conjunction with decreased volume of operations. As a result of political changes and Peruvian government mandated review of obsolescence in November 2001 the company engaged an independent appraisal company to evaluate all the gaming equipment in Peru. The Company utilized this evaluation to revalue all of its gaming equipment and recorded an asset impairment loss of \$2,689,000 for all gaming equipment. The impairment loss was the result of obsolescence and utilization of available equipment for needed parts and the deterioration of anticipated future cash flows from the older equipment. The cigar factory owned in Niagara was reduced in value to the estimated replacement value, as determined by local authorities the impairment charges aggregated \$32,000.

	2001 -----	2000 -----
Gaming Equipment	\$2,789,182	\$ --
Write down of Spare Parts	194,000	--

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Reduction in Value of Cigar Factory	32,000	--
Miami Real Estate	--	64,000
	-----	-----
	\$3,015,182	\$ 64,000
	=====	=====

In addition, the company changed current operations with additional bad debt expenses after obtaining updated information from its attorney in Peru. Included in general and administrative expenses are approximately \$200,000 of additional bad debt write-offs.

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NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2001 AND 2000

Note 11 Quarterly Interim Financial Information (Unaudited)

The company recorded the following expenses in the last quarter of the year which unduly burdened the loss incurred during that quarter.

o Bad Debt Expenses	\$ 200,000
o Compensation for Stock Issued	406,000
o Impairment Charge	2,668,000
	-----
	\$3,274,000
	=====

Note 12 Subsequent Event

In January 2002, the company entered into a consulting agreement with Barnstable Energy Inc. for consulting services for three years. The company is obligated under this arrangement to issue 200,000 shares of common stock.

In February 2002, the company entered into an agreement with Avalon Capital, Inc. (AVA) whereby AVA will use its best efforts to find a merger candidate for the company. If a merger is consummated within a year of introduction AVA will be entitled a finders fee equal to 3% of the value of the aggregate number of shares outstanding after the merger, on a fully diluted basis.

In March 2002, the company announced it had signed a definitive security exchange agreement to acquire Omega Music Group, LLC. The consummation of the transactions is conditional upon, among other things, the legal, financial and business due diligence by all partners involved.

As of April 10, 2002 \$3,350,000 principal amount of debentures have

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been converted into additional common stock.

In March 2002, 3,000,000 of the 3,300,000 warrants issued in year 2000 were cancelled and approximately \$1,650,000 of compensation expensed in year 2000 will be reversed in year 2002.

Note 13 Going Concern  
-----

The company has incurred net losses of \$6,652,433 and \$4,699,323 in years 2001 and 2000, respectively, and as of December 31, 2001 the company's current liabilities exceeded its current assets by approximately \$2,000,000. As of April 10, 2002, substantially all convertible debentures and the accrued interest there-on have been converted into common stock of the company, removing the factor of current liabilities exceeding current assets. These factors create an uncertainty about the company's ability to continue as a going concern. Management of the company is developing a plan to reduce current liabilities by converting debentures into additional stock, reducing expenses and considering the sale of certain oil well assets to generate sufficient cash to sustain operating overhead. The financial statements do not include any adjustment that might be necessary if the company is unable to continue as a going concern.

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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AS OF DECEMBER 31, 2001 AND 2000  
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Note 14 Operating Segments  
-----

	For the Year Ended December 31, 2001				
	Total	Cigar Operations	Oil & Gas	Gaming Equipment	Unallocat
Revenues	\$ 749,942	\$ 170,709	\$ 117,355	\$ 461,778	\$
Cost & Expenses					
Cost of Product Sold	\$ 119,409	\$ 119,409	\$ --	\$ --	\$
Direct Overhead Cost	1,359,730	191,258	94,900	1,073,572	
Allocated Overhead Cost	2,692,322	613,042	421,617	1,657,663	

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Depreciation & Depletion	176,098	--	159,673	10,316	6,1
Expenses Assoc., With Options, Warrants, and Stock Issued For Services	175,064	--	--	--	175,0
Asset Impairment Charges	3,015,182	31,556	--	2,983,626	
	-----	-----	-----	-----	-----
Total Cost and Expenses	7,537,805	955,265	676,190	5,725,177	181,1
	-----	-----	-----	-----	-----
Operating Income (Loss)	(\$6,787,963)	(\$ 784,556)	(\$ 558,355)	(\$5,263,399)	(\$ 181,1
	-----	-----	-----	-----	-----
Total Assets	\$ 4,590,000	\$ 574,000	\$ 1,783,000	\$ 1,667,000	\$ 556,0
	=====	=====	=====	=====	=====

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NUWAY ENERGY, INC. AND SUBSIDIARIES  
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 AS OF DECEMBER 31, 2001 AND 2000  
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Note 14 Operating Segments (Continued)

	For the year Ended December 31, 2000				
	Total	Cigar Operations	Oil & Gas	Gaming Equipment	Unallocat
	-----	-----	-----	-----	-----
Revenues	\$ 833,537	\$ 163,886	\$ --	\$ 669,651	\$
	-----	-----	-----	-----	-----
Cost & Expenses					
	-----	-----	-----	-----	-----
Cost of Product Sold	\$ 119,183	\$ 119,183	\$ --	\$ --	\$
Direct Overhead Cost	1,154,226	166,080	--	988,146	
Expenses Assoc., With Options Warrants	2,518,500	--	--	--	2,518,5

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Allocated					
Overhead Cost	1,440,973	283,317	--	1,157,656	
Depreciation and					
Depletion	268,462	11,364	--	250,385	6,7
Asset Impairment					
Charges	64,000	--	--	--	64,0
	-----	-----	-----	-----	-----
Total Cost and					
Expenses	5,565,344	579,944	--	2,396,187	2,589,2
	-----	-----	-----	-----	-----
Operating					
Income (Loss)	(\$4,731,807)	(\$ 416,058)	(\$ --)	(\$1,726,536)	(\$2,589,2
	-----	-----	-----	-----	-----
Total Assets	\$10,248,000	\$ 692,000	--	\$ 4,753,000	\$ 4,803,0
	=====	=====	=====	=====	=====

The company allocates indirect overhead expenses to specific segments in proportion to the revenues earned by the segment. All revenue from gaming equipment and the related assets are in South America where as all revenue and a majority of the assets of the cigar operations are in the United States.

See Independent Auditor's Report.

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NUWAY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2001 AND 2000

Note 15 Oil and Gas Producing Activities (Unaudited)

The following information includes estimates which are subject to rapid and unanticipated change. The Company cautions that the discounted future net cash flows from proved oil and gas reserves are not an indication of the fair market value of the Company's oil and gas properties or the future net cash flows expected to be generated from the properties. The discounted future net cash flows do not include the fair market value of exploratory properties and probable or possible oil and gas reserves. Also, the estimates do not consider the effect of future changes in oil and gas prices, development, sit restoration and production costs, and possible changes in tax and royalty regulations. The prescribed discount rate of 10% may not appropriately reflect future interest rates.

All amounts below except for cost, acreage, wells drilled and present activities relate to Canada. McDaniel & Associates Consultants Ltd., Independent consultants, provided oil and gas reserve data and the information relating to cash flows.



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Estimated net quantities of proved oil and gas reserves at January 2, 2002 are as follows:

Proved reserves:

	Oil (bbls)	Gas (mcf)
December 31, 2001	140,000	70,700
	-----	-----

Proved developed reserves

December 31, 2001	140,000	70,700
	-----	-----

### Results of Oil and Gas Operations

-----

Income:

Oil Sales	\$117,355
	-----

Cost and expenses:

Lease operating cost	71,245
Depletion, depreciation amortization	159,673
Site restoration costs	7,664
	-----

238,582

-----

Net loss from operations

\$ (121,227)

=====

Capitalized cost of oil and gas activities:

Acquisition costs	\$ 752,067
Exploration	376,845
Development	556,779

See Independent Auditor's Report.

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NUWAY ENERGY, INC. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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AS OF DECEMBER 31, 2001 AND 2000

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Note 15 Oil and Gas Producing Activities (Unaudited) continued

-----

Standardized measure of discounted future net cash flows Relating to proved oil and gas reserve quantities during The following period:

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Future cash inflows	\$1,636,000
Future development and production cost	914,000
	-----
Future income tax expense*	\$ --
	-----
Future net cash flows	722,000
10% annual discount	(53,000)
Standardized measure of discounted future net cash flows:	\$ 669,000
	=====

\*Reflects total tax pools for the period 2001 that may be used to offset oil and gas income. The tax pools are comprised of carry forward of exploration, development and lease acquisition costs, underappreciated capital costs and earned depletion of \$1,655,000 for 2001.

Current prices used in the above estimates were based upon selling prices at the wellhead at January 1, 2002 less the historical quality and price differentials for each respective field as follows:

Oil - Hardisty Heavy (\$CDN./bbl) (In U.S. \$)	\$ 11.316
Gas - Alberta average @ Field gate \$CDN./Mmbm) (In U.S. \$)	\$ 3.301

Current cost was based upon estimates made by consulting engineers at the end of the period.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, NuWay Energy, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NUWAY ENERGY, INC.

By: /s/ TODD SANDERS

-----  
Todd Sanders, President

Date: April 12, 2002

-----

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of NuWay Energy, Inc., and in the capacities and on the 11th day of April, 2002.

/s/ TODD SANDERS

-----  
Todd Sanders, President, Chief  
Executive Officer, Director

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/s/ WILLIAM BOSSUNG

-----  
William Bossung, Secretary, Chief  
Operating Officer, Director

/s/ JOE TAWIL

-----  
Joe Tawil, Acting Chief Financial  
and Accounting Officer

/s/ JOSE A. CABALLERO

-----  
Jose A. Caballero, Director

/s/ DENNIS R. BARRY

-----  
Dennis R. Barry, Director

/s/ MICHAEL ISCOVE

-----  
Michael Iscove, Director

163,052

Unamortized debt discount

**(7,949)** (4,172)

Other

18

Less current portion

**(11,345)** (18,841)

Long-term debt and capital leases

**\$2,045,535** \$1,040,057

(a) Non-callable and unsecured notes and debentures

On September 28, 2007, the Company issued \$1 billion of long-term debt which included \$650 million aggregate principal amount of 6.25% Notes due 2017 and \$350 million aggregate principal amount of 6.875% Notes due 2037. Interest-only payments are due semi-annually beginning on June 15, 2008. The debt is subject to various customary covenants including the maintenance of various financial ratios. The proceeds from this issuance will be used to repurchase stock and for other general corporate needs.

#### 4. Income Taxes

On February 4, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), which clarifies the accounting and disclosure for uncertainty in tax



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positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes.

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The only periods subject to examination for the Company's federal return are the 2003 through 2006 tax years. The audits of the 2001 and 2002 tax years have been completed without material adjustment. The periods subject to examination for the Company's state returns are generally years 2002 through 2006. Certain states have proposed adjustments which the Company is currently appealing. If it does not prevail on its appeals, the Company does not anticipate that the adjustments would result in a material change in its financial position.

As a result of the implementation of FIN 48, the Company recognized no change in the liability for unrecognized tax benefits. At the time of adoption of FIN 48, the Company had \$52.6 million of unrecognized tax benefits recorded on its financial statements, net of any federal tax impact related to state taxes, all of which, if recognized, would impact the effective tax rate.

The Company recognizes interest and penalty expense related to unrecognized tax benefits in its provision for income tax expense. Interest and penalty expense was not material in both the quarter and nine months ended November 3, 2007. As of February 4, 2007, the Company had \$8.2 million of accrued interest and penalties included in the \$52.6 million of unrecognized tax benefits.

### **5. Share-Based Compensation**

As of November 3, 2007, the Company has three long-term compensation plans pursuant to which share-based compensation may be granted. The Company's 1994 and 2003 long-term compensation plans provide for the granting of various forms of equity-based awards, including nonvested stock and options to purchase shares of the Company's common stock, to officers and key employees. The 1997 Stock Option Plan for Outside Directors provides for granting of equity-based awards to outside directors.

The majority of stock options granted to employees vest in four equal annual installments. Remaining stock option grants vest in five to ten equal annual installments. Outside directors' stock options are typically granted upon a director's election or re-election to the Company's Board of Directors. The vesting periods for outside directors' options are one to three years, depending on the length of the term to which the director was elected. Options that are surrendered or terminated without issuance of shares are available for future grants. All stock options have an exercise price equal to the fair market value of the common stock on the date of grant.

Share-based compensation transactions are accounted for in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), Share-based Payment, requiring the Company to recognize expense related to the fair value of its stock option awards. The fair value of all share-based awards is estimated on the date of grant, which is defined as the date the award is approved by the Board of Directors (or management with the appropriate authority).

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Stock compensation cost is recognized for new, modified and unvested stock option awards, measured at fair value and recognized as compensation cost over the vesting period. The Black-Scholes option valuation model was used to estimate the fair value of each option award based on the following assumptions:

	2007	2006
Dividend yield	0%	0%
Volatility	0.304	0.311
Risk-free interest rate	4.7%	4.7%
Expected life in years	5.2	5.2
Weighted average fair value at grant date	\$ 26.66	\$ 19.40

Total compensation cost recognized related to options was \$13.1 million for the three months ended November 3, 2007 and \$9.1 million for the three months ended October 28, 2006. Total compensation cost recognized for options was \$34.6 million for the nine months ended November 3, 2007 and \$28.0 million for the nine months ended October 28, 2006.

The Company has also awarded nonvested restricted shares of common stock to eligible key employees. All awards have restriction periods tied primarily to employment and/or service. The awards vest over three to four years. The awards are expensed on a straight-line basis over the vesting period. Total compensation cost recognized related to nonvested restricted stock was \$1.5 million for the three months ended November 3, 2007 and \$1.1 million for the three months ended October 28, 2006. Total compensation cost recognized for nonvested restricted stock was \$4.3 million for the nine months ended November 3, 2007 and \$3.0 million for the nine months ended October 28, 2006.

Total unrecognized share-based compensation expense for all share-based payment plans was \$157 million at November 3, 2007, of which approximately \$16 million is expected to be recognized in the fourth quarter of 2007, \$53 million in 2008, \$45 million in 2009 and \$43 million thereafter. Future compensation expense may be impacted by future grants, changes in forfeiture estimates and/or actual forfeitures which differ from estimated forfeitures.

**6. Short-term Investments**

Short-term investments consist primarily of municipal auction rate securities and are stated at cost, which approximates market value. Short-term investments are classified as available-for-sale securities and are highly liquid. These securities generally have a put option feature that allows the Company to liquidate the investments at par.

**7. Contingencies**

The Company is involved in various legal matters arising in the normal course of business. In the opinion of management, the outcome of such proceedings and litigation will not have a material adverse impact on the Company's consolidated financial statements.

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**8. Net Income Per Share**

The calculations of the numerator and denominator for basic and diluted net income per share are summarized as follows:

	Three Months Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
	(In Thousands)			
Numerator for basic and diluted earnings per share net income	<b>\$ 194,005</b>	\$ 224,496	<b>\$ 672,182</b>	\$ 624,098
Denominator for basic earnings per share weighted average shares	<b>316,948</b>	326,904	<b>319,737</b>	335,148
Dilutive employee stock options and non-vested stock (a)	<b>1,645</b>	2,910	<b>2,643</b>	3,107
Denominator for diluted earnings per share	<b>318,593</b>	329,814	<b>322,380</b>	338,255

- (a) Excludes 14.2 million options for the three months ended November 3, 2007, 2.8 million options for the three months ended October 28, 2006, 6.1 million options for the nine months ended November 3, 2007 and 3.5 million options for the nine months ended October 28, 2006 as the impact of such options was antidilutive.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Executive Summary**

Despite the challenging environment, the Company continued to operate its business in a conservative manner, managing its inventory investment as it continued its improvement in gross margin while reducing expenses where possible without hurting the customer's in-store experience.

For the quarter, net sales increased 4.8% and comparable store sales decreased 2.6% over the third quarter of last year. Sales in weather-sensitive businesses such as outerwear, fleece, and sweaters experienced significant double digit declines on a comparable store basis, contributing to the overall sales shortfall. Accessories led the Company for the quarter with strong performance in beauty, watches and fine jewelry. Stronger performing businesses in Home included home décor, bedding and food prep. Men's and Footwear outperformed the Company on solid performance in Men's casual sportswear and Women's shoes. In Women's apparel, the updated/contemporary business, which includes Simply Vera Vera Wang which was launched during the current quarter, and juniors-related separates reported strong comparable sales. Consistent with prior quarters, classic sportswear continues to trend downward in brands other than Chaps. The Children's business was most affected by the weather with weak comparable sales in all age groups.

Year-to-date, net sales increased 8.3% and comparable store sales increased 0.7% over the comparable prior year period. Men's and Accessories reported the strongest sales while Women's and Children's both reported slightly negative comparable store sales for the nine months ended November 3, 2007.

Gross margin as a percent of net sales was 37.1% for the quarter, comparable to 37.0% in the prior year. Gross margin in 2006 included \$15 million of revenue related to the Company's initial recognition of gift card breakage. Excluding this item, gross margin increased 32 basis points over the comparable prior year quarter. The year-to-date gross margin rate was 37.6%, a 77 basis point improvement (excluding the gift card breakage) over 2006. The increase in the gross margin rate was driven by the continued impact of the Company's merchandise and inventory management initiatives, improved markup, the adoption of markdown optimization, better inventory shortage results and increased penetration of private and exclusive brands. Sales of private and exclusive brands reached 38.9% of net sales for the quarter and 37.5% for the year-to-date period, an increase of approximately 350 basis points over both comparable prior year periods.

In early November, the Company announced a multi-year licensing agreement naming Kohl's as the exclusive U.S. retailer of the FILA SPORT collection. The collection will feature women's, men's and children's apparel, footwear and accessories. It will be available in the Company's stores nationwide and on Kohls.com in Fall 2008.



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Operating income decreased 10.4% to \$330.9 million for the quarter and increased 9.1% to \$1.1 billion for the year-to-date period. As a percent of net sales, operating income decreased approximately 150 basis points to 8.6% for the quarter and increased 10 basis points to 10.2% for the nine months ended November 3, 2007.

Net income for the quarter was \$194.0 million, or \$0.61 per diluted share, compared to net income of \$224.5 million and diluted earnings per share of \$0.68 in the third quarter of last year. Year-to-date net income increased 7.7% to \$672.2 million and diluted earnings per share increased 13.0% to \$2.09.

The Company opened 97 stores in the nine months ended November 3, 2007, including seven in March, 10 in April and 80 in October. As of November 3, 2007, the Company operated 914 stores in 47 states compared with 814 stores in 45 states at October 28, 2006. Total square feet of selling space increased 10.8% from 62.1 million at October 28, 2006 to 68.8 million at November 3, 2007. The Company opened 15 stores in November 2007 and now operates a total of 929 stores.

**Results of Operations****Net Sales**

	November 3,	October 28,	Increase	
	2007	2006	\$	%
	(Dollars in Thousands)			
<b>Net sales:</b>				
Quarter	<b>\$ 3,825,162</b>	\$ 3,650,494	\$ 174,668	4.8%
Year-to-date	<b>10,986,412</b>	10,148,338	838,074	8.3

For the quarter, all of the increase in net sales was attributable to new stores. Comparable store sales, which are sales from stores (including E-Commerce sales and relocated or expanded stores) open throughout the full current and prior fiscal year periods, declined \$90.3 million compared to the third quarter of last year. The 2.6% decrease in comparable store sales was the result of a 1.8% decrease in average transaction value and a 0.8% decrease in the number of transactions per store.

Year-to-date, new stores contributed \$768.3 million to the \$838.1 million increase in net sales over the prior year. The remaining \$69.8 million, which represents a 0.7% increase in comparable store sales, is the result of a 1.4% increase in average transaction value which was partially offset by a 0.7% decrease in the number of transactions per store.

The Southwest region led the Company's comparable sales for both the quarter and year-to-date. From a line of business perspective, Accessories led the Company for the quarter and Men's for the year-to-date period. E-Commerce sales were \$42.5 million for the quarter, compared to \$40.0 million for the third quarter of last year. Year-to-date, E-Commerce sales increased 43.4% to \$143.8 million as the Company continues to expand the selections offered on-line.

**Table of Contents****Gross Margin**

	November 3, 2007	October 28, 2006 (Dollars in Thousands)	Increase	
			\$	%
<b>Gross margin:</b>				
Quarter	\$ 1,418,031	\$ 1,350,908	\$ 67,123	5.0%
Year-to-date	4,132,275	3,745,622	386,653	10.3
<b>Gross margin as a percent of net sales:</b>				
Quarter	37.1%	37.0%		
Year-to-date	37.6	36.9		

Gross margin includes the total cost of products sold including product development costs, net of vendor payments other than reimbursement of specific, incremental and identifiable costs; inventory shrink; markdowns; freight expenses associated with moving merchandise from the Company's vendors to its distribution centers; shipping and handling expenses of E-Commerce sales and terms cash discount. The classification of these expenses varies across the retail industry.

Newly-opened stores contributed \$103.2 million in gross margin for the quarter and \$271.0 million year-to-date. Comparable store gross margin decreased \$36.1 million for the quarter and increased \$115.7 million year-to-date.

Gross margin as a percent of net sales was 37.1% for the three months ended November 3, 2007 compared to 37.0% for the three months ended October 28, 2006. For the year-to-date period, gross margin as a percent of net sales was 37.6% in 2007 and 36.9% in 2006. Excluding \$15 million related to the Company's initial adoption of gift card breakage revenue in 2006, gross margin as a percent of sales was 36.8 percent for both the prior year quarter and year-to-date periods.

The improvement in gross margin as a percent of net sales was driven by the continued impact of the Company's merchandise and inventory management initiatives, improved markup, the adoption of markdown optimization, better inventory shortage results and increased penetration of private and exclusive brands. Sales of private and exclusive brands reached 38.9% of net sales for the quarter and 37.5% for the year-to-date period, an increase of approximately 350 basis points over both comparable prior year periods.

**Operating Expenses**

	November 3, 2007	October 28, 2006 (Dollars in Thousands)	Increase	
			\$	%
<b>S,G&amp;A:</b>				
Quarter	\$ 933,706	\$ 858,685	\$ 75,021	8.7%
Year-to-date	2,629,969	2,387,330	242,639	10.2
<b>S,G&amp;A as a percent of net sales:</b>				
Quarter	24.4%	23.5%		
Year-to-date	23.9	23.5		

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Selling, general and administrative expenses ( S,G&A ) include compensation and benefit costs (including stores, headquarters, buying and merchandising and distribution centers); occupancy and operating costs of retail, distribution and headquarter facilities; freight expenses associated with moving merchandise from the Company s distribution centers to its retail stores, and among distribution and retail facilities; advertising expenses, offset by vendor payments for reimbursement of specific, incremental and identifiable costs; and other administrative costs. Depreciation and amortization and preopening expenses are not included in S,G&A. The classification of these expenses varies across the retail industry.

The Company achieved leverage in credit for both the quarter and year-to-date periods. Stores, advertising and distribution centers did not leverage for either period primarily due to lower sales, the Company s desire to maintain a positive customer in-store experience and incremental marketing expenses associated with the launch of new brand initiatives and new store openings. These increases were partially offset by lower incentive compensation expenses.

	November 3,	October 28,	Increase	
	2007	2006	\$	%
(Dollars in Thousands)				
<b>Depreciation and amortization:</b>				
Quarter	\$ 115,207	\$ 94,318	\$ 20,889	22.1%
Year-to-date	326,041	283,695	42,346	14.9

The increases in depreciation and amortization for both the quarter and year-to-date periods are primarily attributable to the addition of new stores and the mix of owned compared to leased stores. Depreciation on remodels and the Company s new point of sale system also contributed to the increases.

	November 3,	October 28,	Increase	
	2007	2006	\$	%
(Dollars in Thousands)				
<b>Preopening expenses:</b>				
Quarter	\$ 38,255	\$ 28,521	\$ 9,734	34.1%
Year-to-date	55,592	47,580	8,012	16.8

Preopening expenses are expensed as incurred and represent the costs associated with new store openings including advertising, hiring and training costs for new employees, processing and transporting initial merchandise and rent expenses. The average cost per store fluctuates based on the mix of stores opened in new markets compared to existing markets, with new markets being more expensive. The Company opened 112 stores in 2007, including 17 in the first quarter, 80 in the third quarter and 15 in November. In 2006, the Company opened 85 stores, including 17 in the first quarter, 65 in the third quarter and three in November. The increase in preopening expenses is due to the increase in the number of stores opened. This increase was partially offset by a lower average cost per store due to shifting more advertising to the post-grand opening period and to an increase in the percentage of stores which were opened in existing markets rather than new markets.

**Table of Contents****Operating Income**

	November 3, 2007	October 28, 2006 (Dollars in Thousands)	Increase (Decrease)	
			\$	%
<b>Operating income:</b>				
Quarter	\$ 330,863	\$ 369,384	\$ (38,521)	(10.4)%
Year-to-date	1,120,673	1,027,017	93,656	9.1
<b>Operating income as a percent of net sales:</b>				
Quarter	8.6%	10.1%		
Year-to-date	10.2	10.1		

As a result of the above factors, operating income as a percent of net sales was 8.6% for the three months ended November 3, 2007 compared to 10.1% for the three months ended October 28, 2006. For the nine month periods, operating income as a percent of net sales was 10.2% for 2007 compared to 10.1% for 2006.

**Interest Expense, Net**

	November 3, 2007	October 28, 2006 (Dollars in Thousands)	Increase	
			\$	%
<b>Interest expense, net:</b>				
Quarter	\$ 18,708	\$ 10,189	\$ 8,519	83.6%
Year-to-date	39,396	30,395	9,001	29.6

The increase in net interest expense in both periods was primarily due to higher outstanding debt balances including both advances on the Company's short-term credit facilities and \$1 billion in new debt that was issued in September 2007. Lower interest income on investments also contributed to the increase as the Company used proceeds from the 2007 debt issuance and the 2006 sale of the Company's credit card portfolio to fund stock repurchases. These increases were partially offset by higher capitalized interest due to increased capital expenditures.

**Provision for Income Taxes**

	November 3, 2007	October 28, 2006 (Dollars in Thousands)	Increase (Decrease)	
			\$	%
<b>Provision for income taxes:</b>				
Quarter	\$ 118,150	\$ 134,699	\$ (16,549)	(12.3)%
Year-to-date	409,095	372,524	36,571	9.8

The Company's effective tax rate was 37.8% for the three months ended November 3, 2007 compared to 37.5% for the three months ended October 28, 2006. For the nine month periods, the effective tax rate was 37.8% for 2007 and 37.4% for 2006. The increases in the effective tax rates are primarily due to a decrease in the amount of tax exempt interest earned in 2007 compared to 2006 and a shift in the mix of new stores in certain jurisdictions.

**Table of Contents****Seasonality & Inflation**

The Company's business, like that of most retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the last half of each fiscal year, which includes the back-to-school and holiday seasons. Approximately 15% of sales typically occur during the back-to-school season and 30% during the holiday season. Because of the seasonality of the Company's business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. In addition, quarterly results of operations depend significantly upon the timing and amount of sales and costs associated with the opening of new stores.

The Company does not believe that inflation has had a material effect on its results during the periods presented. However, there can be no assurance that the Company's business will not be affected by such factors in the future.

**Financial Condition and Liquidity**

The Company's primary ongoing cash requirements are for capital expenditures in connection with the Company's expansion and remodeling programs and seasonal and new store inventory purchases. The Company's primary sources of funds for its business activities are cash flow from operations, short-term trade credit and its lines of credit.

	November 3, 2007	Nine Months Ended		Increase (Decrease)	
		October 28, 2006		\$	%
	(Dollars in Thousands)				
<b>Net cash provided by (used in):</b>					
Operating activities	\$ 374,276	\$ 2,390,623	\$ (2,016,347)	(84.3)%	
Investing activities	(901,215)	(1,127,282)	226,067	20.1	
Financing activities	632,755	(1,191,494)	1,824,249	153.1	

*Operating Activities.* The decrease in cash flow provided by operations was primarily due to the cash proceeds of \$1.6 billion received by the Company in April 2006 in conjunction with the sale of its billion proprietary credit card portfolio. The primary use of operating cash flow for the nine months ended November 3, 2007 was an increase in merchandise inventories of \$1.3 billion. The primary sources of operating cash flow in 2007 were an \$860.3 million increase in accounts payable and accrued and other long-term liabilities. Short-term trade credit, in the form of extended payment terms for inventory purchases, represents a significant source of financing for merchandise inventories.

Merchandise inventories increased \$673.7 million, or 20.8%, from the October 28, 2006 balance primarily due to the increase in the number of stores. On an average per store basis, merchandise inventories at November 3, 2007 increased 7.6% from October 28, 2006. After adjusting the October 2006 balance for the calendar shift resulting from the 53<sup>rd</sup> week in 2006, average inventory per store increased approximately 2% partially due to increased penetration of private and exclusive brands. Compared to February 3, 2007, merchandise inventories at November 3, 2007 increased \$1.3 billion, or 51.6%, due to normal business seasonality, the opening of 112 new stores (including 15 opened in November 2007) and increased shipments of import merchandise.

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Accounts payable at November 3, 2007 increased \$60.1 million from October 28, 2006 and \$774.5 million from February 3, 2007. Accounts payable as a percent of inventory was 43.7% at November 3, 2007, compared to 51.0% at October 28, 2006, reflecting reduced receipts as a result of lower than expected sales.

Key financial ratios that provide certain measures of the Company's liquidity are as follows:

	November 3, 2007	February 3, 2007	October 28, 2006
Working capital (In Thousands)	\$ 1,702,894	\$ 1,482,382	\$ 1,487,115
Current ratio	1.62:1	1.78:1	1.61:1
Debt/capitalization	27.7%	15.9%	15.9%

The increase in working capital and the current ratio as of November 3, 2007 compared to October 28, 2006 was primarily due to higher inventories, partially offset by lower investments and higher short-term debt. The increase in the debt/capitalization ratio represents higher debt levels, partially offset by higher capitalization. The higher debt levels reflect the \$1 billion of long-term notes that were issued in September 2007, as well as draws on short-term credit facilities. The higher capitalization is the result of earnings and stock option exercises, partially offset by share repurchases.

*Investing Activities.* The decrease in net cash used in investing activities reflects the net impact of short-term investing activities, partially offset by higher capital expenditures. Net short-term investment activity generated \$405.6 million in proceeds in 2007 which were primarily used to repurchase common stock. In 2006, net short-term investment activity resulted in a use of funds of \$158.9 million as investment of proceeds from the private label credit card transaction on April 21, 2006 exceeded cash used to repurchase common stock.

Capital expenditures include costs for new store openings, store remodels, distribution center openings and other base capital needs. Capital expenditures totaled \$1.3 billion for the nine months ended November 3, 2007, a \$367.6 million increase over the comparable prior year period primarily due to an increase in the number of stores opened in 2007 compared to 2006. An increase in the number of remodels and investments in technology, including point-of-sale system, also contributed to the increase. Total capital expenditures for fiscal 2007 are expected to be approximately \$1.6 billion. The actual amount of the Company's future annual capital expenditures will depend primarily on the number of new stores opened, the mix of owned, leased or acquired stores, the number of stores remodeled and the timing of distribution center openings.

*Financing Activities.* The Company expects to fund growth with available cash and short-term investments, proceeds from cash flows from operations, short-term trade credit, seasonal borrowings under its revolving credit facilities and other sources of financing. The Company believes it has sufficient lines of credit, cash and short-term investments and expects to generate adequate cash flows from operating activities to sustain current levels of operations.

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On September 28, 2007, the Company issued \$1 billion of long-term debt which included \$650 million aggregate principal amount of 6.25% Notes due 2017 and \$350 million aggregate principal amount of 6.875% Notes due 2037. Interest-only payments are due semi-annually beginning on June 15, 2008. The debt is subject to various customary covenants including the maintenance of various financial ratios. The proceeds from this issuance will be used to repurchase stock and for other general corporate needs.

The Company has various facilities upon which it may draw funds including a \$900 million senior unsecured revolving facility, two demand notes with availability of \$50 million and a \$90 million swing line. As of November 3, 2007, outstanding balances on these short-term credit facilities totaled \$170.0 million. Weighted-average borrowings under these facilities were \$167.9 million for the quarter and \$70.9 million year-to-date.

The Company completed its 2006 \$2.0 billion share repurchase program in the second quarter of 2007, purchasing 5.3 million shares for \$373 million at an average price of approximately \$70 per share in the quarter ended August 4, 2007. Since announcing the plan in April 2006, the Company purchased 32.8 million shares at an average price of approximately \$61 per share.

In September 2007, the Company's board of directors authorized a \$2.5 billion share repurchase program which is intended to return excess capital to the Company's shareholders. The Company expects to execute this share repurchase program primarily in open market transactions, subject to market conditions, and expects to complete the program over the next three years. Funding for the new program will be from operating cash flow as well as the \$1 billion in long-term debt financing issued in September 2007 and, therefore, is not expected to have a significant impact on the Company's short or long-term liquidity. The Company repurchased 4.2 million shares for approximately \$240 million at an average price of \$56.50 per share in the current quarter.

The Company also acquires shares from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon the vesting of the employee's restricted stock. Such shares are then designated as treasury shares.

**Contractual Obligations**

The Company issued \$1 billion of long-term debt during the current quarter. Contractual maturities of the Company's long-term debt and the related interest costs as of November 3, 2007 are as follows:

	Less than 1			
Year	1 - 3 Years	3-5 Years	More than	
(Q4 2007)	(2008 - 2010)	(2011 - 2013)	5 Years	
(In Thousands)				
Long-term debt, including related interest costs of \$2.2 billion	\$ 17,546	\$ 384,223	\$ 719,913	\$ 2,957,950

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There have been no other significant changes in the contractual obligations disclosed in the Company's Annual Report on Form 10-K for the year ended February 3, 2007.

The Company adopted the provisions of FIN 48 on February 4, 2007 and the related liability for unrecognized tax benefits was \$52.6 million. Although payment of such amounts in future periods could affect liquidity and cash flows, the Company is currently unable to reasonably estimate the period of cash settlement.

The Company's various debt agreements contain certain covenants that limit, among other things, additional indebtedness, as well as require the Company to meet certain financial tests. As of November 3, 2007, the Company was in compliance with all financial covenants of the debt agreements and expects to remain in compliance for the upcoming year.

### *Off-Balance Sheet Arrangements*

The Company has not provided any financial guarantees as of November 3, 2007.

The Company has not created, and is not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating the Company's business. The Company does not have any arrangements or relationships with entities that are not consolidated into the financial statements that are reasonably likely to materially affect the Company's liquidity or the availability of capital resources.

## **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect reported amounts. Management has discussed the development, selection and disclosure of its estimates and assumptions with the Audit Committee of the Board of Directors. There have been no significant changes in the critical accounting policies and estimates discussed in the Company's Annual Report on Form 10-K for the year ended February 3, 2007.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no significant changes in the market risks described in the Company's Annual Report on Form 10-K for the year ended February 3, 2007.

### **Item 4. Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the specified time periods. 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 management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of these disclosure controls and procedures



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pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in the Company's reports is recorded, processed, summarized and reported within the specified time periods and are also effective in ensuring that information required to be disclosed in reports filed or submitted under the Exchange Act are accumulated and communicated to management, including the Company's principal executive and principal financial officers, to allow timely decisions regarding required disclosures.

There were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1A. Risk Factors**

There have been no significant changes in the Company's risk factors from those described in its Annual Report on Form 10-K for the year ended February 3, 2007.

#### *Forward-looking Statements*

This report contains statements that may constitute forward-looking statements within the meaning of the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Those statements relate to developments, results, conditions or other events the Company expects or anticipates will occur in the future. The Company intends words such as "believes," "anticipates," "plans," "expects" and similar expressions to identify forward-looking statements. Without limiting the foregoing, these statements may relate to future outlook, revenues, earnings, store openings, planned capital expenditures, market conditions, new strategies and the competitive environment. Forward-looking statements are based on management's then current views and assumptions and, as a result, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Any such forward-looking statements are qualified by the important risk factors, described in Item 1A of the Company's Annual Report on Form 10-K filed with the SEC on March 23, 2007, that could cause actual results to differ materially from those predicted by the forward-looking statements. Forward-looking statements relate to the date initially made, and the Company undertakes no obligation to update them. An investment in the Company's common stock or other securities carries certain risks. Investors should carefully consider the risks as stated in the Company's Form 10-K and other risks which may be disclosed from time to time in the Company's filings with the SEC before investing in the Company's securities.

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

During the quarter ended November 3, 2007, the Company did not sell any securities which were not registered under the Securities Act.

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In September 2007, the Company's board of directors authorized a \$2.5 billion share repurchase program. The Company expects to execute this share repurchase program primarily in open market transactions, subject to market conditions, and expects to complete the program over the next three years. Funding for the new program will be from operating cash flow as well as the \$1 billion in long-term debt issued in September 2007.

The following table contains information for both shares repurchased pursuant to the Company's repurchase program and shares acquired from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon the vesting of the employees' restricted stock during the three fiscal months ended November 3, 2007:

Period	Total Number of Shares Purchased During Period	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum
				Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (In thousands)
Aug. 5 - Sept. 1, 2007	1,467	\$ 57.99		
Sept. 2 - Oct. 6, 2007	643	59.03		\$ 2,500,000
Oct. 7 - Nov. 3, 2007	4,212,120	56.50	4,212,120	2,262,000
<b>Total</b>	<b>4,214,230</b>	<b>\$ 56.50</b>	<b>4,212,120</b>	<b>\$ 2,262,000</b>

**Item 6. Exhibits**

- 3.1 Amended and Restated Bylaws of Kohl's Corporation incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K dated November 14, 2007
- 4.1 Fourth Supplemental Indenture between the Company and The Bank of New York Trust Company, N.A., as successor to The Bank of New York, as Trustee, incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated September 25, 2007
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Periodic Report by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Periodic Report by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

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

Kohl s Corporation

(Registrant)

Date: December 7, 2007

/s/ R. Lawrence Montgomery  
R. Lawrence Montgomery  
Chief Executive Officer and Director

Date: December 7, 2007

/s/ Wesley S. McDonald  
Wesley S. McDonald  
Chief Financial Officer