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MULTI TECH INTERNATIONAL CORP
Form 10QSB
November 21, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D. C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

Commission file number 0-25909

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

Nevada
(State or other jurisdiction of
incorporation or organization)

86-0931332
(I.R.S. Employer
Identification No.)

4/95 Salmon Street, Port Melbourne, Victoria
Australia, 3207
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: 011 61 3 8645 4340

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

The number of shares of the issuer's outstanding common stock, which is the only class of its common equity, on November 16, 2005 was 257,400,680.

ITEM 1 FINANCIAL STATEMENTS

Description

Page
No.

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FINANCIAL INFORMATION:

Financial Statements

Consolidated Balance Sheets at September 30, 2005 (Unaudited)	3
Consolidated Statement of Operations (Unaudited)	4
Consolidated Statements of Cash Flows (Unaudited)	5
Notes to Consolidated Financial Statements (Unaudited)	6

2

ITEM 1. FINANCIAL STATEMENTS

ITEM 1. FINANCIAL STATEMENTS

AUSTRALIAN FOREST INDUSTRIES, INC.

UNAUDITED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2005

CURRENT ASSETS	
Accounts receivable	\$ 3,224,449
Inventory	2,224,756
Prepaid expenses and other	8,764

Total Current Assets	5,457,969
PROPERTY, PLANT AND EQUIPMENT	11,523,056
OTHER ASSETS	
Receivable from related party	
Long-term timber supply contract, net of amortization	839,200

Total Assets	\$ 17,820,225
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Bank overdraft	\$ 41,524
Accounts payable	4,336,411
Current portion of capitalized lease obligations	764,183
Accrued payroll, related taxes and benefits	559,390

Total Current Liabilities	5,701,508
NON-CURRENT LIABILITIES	
Timberman's group loan	775,990
Capitalized lease obligations	4,106,520

Total Non-Current Liabilities	4,882,510

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STOCKHOLDERS' EQUITY

Preferred stock, par value \$0.001, 5,000,000 shares authorized, none issued and outstanding	
Common stock, par value \$0.001, 300,000,000 shares authorized, 257,400,680 issued and outstanding	257,400
Additional paid-in capital	9,810,817
Comprehensive income	255,909
Accumulated deficit	(3,087,919)

Total Stockholders' Equity	7,236,207

Total Liabilities and Stockholders' Equity	\$ 17,820,225
	=====

See accompanying notes to financial statements.

3

AUSTRALIAN FOREST INDUSTRIES, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30,		For the Nine Months September 30,	
	2005	2004	2005	
	-----	-----	-----	-----
REVENUE - SALES	\$ 3,377,974	\$ 2,725,673	\$ 10,124,288	\$ 9,810,817
COSTS AND EXPENSES				
Cost of goods sold	1,894,605	1,495,781	5,753,756	4,987,123
Selling, general and administrative	1,851,387	2,178,360	5,712,336	5,712,336
Management fees	(357,064)			
Interest expense	89,555	42,137	269,612	
Depreciation and amortization	206,320	196,595	578,574	
	-----	-----	-----	-----
Total Costs and Expenses	4,041,867	3,555,809	12,314,278	10,699,459
	-----	-----	-----	-----
OPERATING LOSS	(663,893)	(830,136)	(2,189,990)	(1,888,642)
OTHER INCOME	895,989	8,242,332	2,061,010	8,242,332
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 232,096	\$ 7,412,196	\$ (128,980)	\$ 6,353,690
	=====	=====	=====	=====
NET PROFIT/(LOSS) PER SHARE	\$ 0.01	\$ 0.01	\$ (0.01)	\$ 0.02
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	257,400,680	257,400,680	257,400,680	260,000,000
	=====	=====	=====	=====

See accompanying notes to financial statements.

AUSTRALIAN FOREST INDUSTRIES, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30,	
	2005	2004
	-----	-----
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 8,621,505	\$ 9,150,402
Payments to suppliers and employees	(10,730,283)	(10,387,947)
Other income	97,210	442,108
	-----	-----
Net Cash Used in Operating Activities	(2,011,568)	(795,437)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for property, plant, and equipment	(5,492,136)	(3,114,799)
Proceeds from sale of property, plant, and equipment	4,305,409	1,557,187
	-----	-----
Net Cash Used in Investing Activities	(1,186,727)	(1,557,612)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from borrowings/capitalized leases	1,423,717	2,482,682
Loans to related parties	2,147,831	(1,295,650)
	-----	-----
Net Cash Proved by Financing Activities	3,571,548	1,187,032
NET INCREASE (DECREASE) IN CASH	373,253	(1,166,017)
EFFECT OF EXCHANGE RATES ON CASH	6,320	131,748
CASH AT BEGINNING OF YEAR	(421,097)	459,927
	-----	-----
CASH AT END OF YEAR	\$ (41,524)	\$ (574,342)
	=====	=====

See accompanying notes to financial statements.

AUSTRALIAN FOREST INDUSTRIES, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not

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misleading have been included. Results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the financial statements and footnotes thereto included in Australian Forest Industries' Inc. annual report on Form 10-KSB for the year ended December 31, 2004.

6

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

It should be noted that this Management's Discussion and Analysis of Financial Condition and Results of Operations may contain "forward-looking statements." The terms "believe," "anticipate," "intend," "goal," "expect," and similar expressions may identify forward-looking statements. These forward-looking statements represent the Company's current expectations or beliefs concerning future events. The matters covered by these statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including the Company's dependence on weather-related factors, introduction and customer acceptance of new products, the impact of competition and price erosion, as well as supply and manufacturing restraints and other risks and uncertainties. The foregoing list should not be construed as exhaustive, and the Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements, or to reflect the occurrence of anticipated or unanticipated events. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation that the strategy, objectives or other plans of the Company will be achieved. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

RESULTS OF OPERATIONS

We are currently in the second year of operations and have generated significant revenues to date. Our activities from inception to date were related to our formation, preparation of our business model, arranging and planning financing and the acquiring all rights, title and interest to our timber rights located in the Canberra region in addition to the implementation and completion of our first upgrade of the Canberra sawmill.

Sales levels remained constant during this quarter compared to the previous quarter. Compared to this time last year sales were up by 16% for the quarter and 3% YTD.

Cost of Goods Sold improved due to better quality of log received. Quarterly Gross Profit margin was 43.9% compared to 43.2% YTD.

Labor costs were down for the quarter due to greater efficiencies (capital improvements) in the sawmill. However, on a YTD basis labor costs have increased by over 6% for the same time last year.

Operating Expenses have once again remained static with our costs for the quarter and YTD being the same as at this time last year. However, our costs for this quarter compared to the previous quarter rose by 11%. This was primarily due to some additional leasing costs on our new forklifts and mobile equipment.

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Continual capital upgrades are still being undertaken. Major works have included the full commissioning of the Quad Saw, Reinbold Grinder and Cant Gang Sawing Line. All of these capital improvements have enabled the sawmill to be able to increase production substantially and to a level this sawmill has never been able to reach.

In regard to the Bombala sawmill, we are in the final stage of the approval process and hope to receive Government approval in early 2006. As soon as this occurs, we will be in a position to commence construction of this new facility immediately and still hope to be able to complete construction by the end of 2006.

Operating costs for the nine-month period ended September 30, 2005 aggregated \$12,314,278 as compared to \$10,621,946 for the corresponding period in 2004. This also includes an increase in cost of goods sold expenses of \$1,140,299 from the corresponding period in 2004 which was result of the continuing development of our business plan and increasing of our production and engineering efforts. In the nine-month period ended September 30, 2005 we realized a net loss of \$(128,980) as compared to net income of \$6,911,413 for the corresponding nine-month period ending in 2004. The reduction in income from 2004 to 2005 was due to our other income being \$2,679,658 in 2005, compared to \$11,306,013 at the same time in 2004. Our net loss per share was \$(0.01) for the period ending September 30, 2005.

7

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2004 we had current assets of \$4,478,421 and on September 30, 2005, we had current assets of \$5,457,969.

Net cash used in operating activities for the nine months ending September 30, 2005 was \$(2,011,568) as compared to \$(795,437) for the nine months ending September 30, 2004. The increase in net cash used was a result of other income of \$97,210 for the period in 2005 as compared to other income of \$442,108 in 2004.

In the nine months ending September 30, 2005, the Company experienced an increase in net cash provided by financing activities of \$3,571,548 compared to \$1,187,032 for the same period in 2004.

The Company is presently completing a second sawmill upgrade in Canberra which is anticipated to be operational in the third quarter of 2005 and which will be used primarily for processing the logs resulting from the Bombala Agreement which was entered into in 2004.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of certain accounting policies, many of which require estimates and assumptions about future events and their impact on amounts reported in the financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates.

Management believes application of accounting policies, and the estimates inherently required by the policies, are reasonable. These accounting policies and estimates are constantly re-evaluated, and adjustments are made when facts and circumstances dictate a change. Historically, management has found the application of accounting policies to be appropriate, and actual results

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generally do not differ materially from those determined using necessary estimates.

Item 3. Controls and Procedures.

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

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

(c) Not applicable

8

PART II

Item 1. Legal Proceedings
None.

Item 2. Changes in Securities
None

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders
None

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibit Index

Exhibit 31.1 Certification of Chief Executive Officer

Exhibit 31.2 Certification of Chief Financial Officer

Exhibit 32.1 Certification of Chief Executive Officer

Exhibit 32.1 Certification of Chief Financial Officer

b. Reports on Form 8-K

None.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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AUSTRALIAN FOREST INDUSTRIES

/s/ Michael Timms

Name: Michael Timms
Title: CEO, President and Chairman of the Board
Date: November 16, 2005

/s/ Colin Baird

Name: Colin Baird
Title: Chief Financial Officer
Date: November 16, 2005