

CURRENCYSHARES EURO TRUST

Form 10-Q

September 09, 2010

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2010

or

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

For the transition period from _____ to _____

Commission File Number 001-32694

CurrencyShares[®] Euro Trust

Sponsored by Rydex Specialized Products LLC,

d/b/a Rydex Investments

(Exact name of registrant as specified in its charter)

| | | |
|--|---|---|
| New York (State or other jurisdiction of incorporation or organization) | 9601 Blackwell Road, Suite 500 Rockville, Maryland 20850 (Address of principal executive offices) (Zip Code) (301) 296-5100 (Registrant's telephone number, including area code) N/A (Former name, former address and former fiscal year, if changed since last report) | No. 20-3613421 (IRS Employer Identification No.) |
|--|---|---|

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Table of Contents

CURRENCYSHARES® EURO TRUST

INDEX

| Caption | Page |
|--|-------------|
| <u>PART I FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements (Unaudited)</u> | |
| <u>Statements of Financial Condition at July 31, 2010 and October 31, 2009</u> | 2 |
| <u>Statements of Income and Comprehensive Income for the three months ended July 31, 2010, the three months ended July 31, 2009, the nine months ended July 31, 2010 and the nine months ended July 31, 2009</u> | 3 |
| <u>Statements of Changes in Shareholders' Equity for the nine months ended July 31, 2010 and the year ended October 31, 2009</u> | 4 |
| <u>Statements of Cash Flows for the nine months ended July 31, 2010 and the nine months ended July 31, 2009</u> | 5 |
| <u>Notes to Financial Statements</u> | 6 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 10 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 14 |
| <u>Item 4. Controls and Procedures</u> | 14 |
| <u>Part II OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 15 |
| <u>Item 1A. Risk Factors</u> | 15 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 15 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 15 |
| <u>Item 4. (Removed and Reserved)</u> | 15 |
| <u>Item 5. Other Information</u> | 15 |
| <u>Item 6. Exhibits</u> | 16 |
| <u>SIGNATURES</u> | 17 |

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

CurrencyShares® Euro Trust
Statements of Financial Condition

| | July 31, 2010 | October 31, 2009 |
|---|----------------------|-------------------------|
| | (Unaudited) | |
| <u>Assets</u> | | |
| Current Assets: | | |
| Euro deposits, interest bearing | \$ 506,455,556 | \$ 589,687,376 |
| Euro deposits, non-interest bearing | | |
| Receivable from accrued interest | 82,676 | 42,662 |
| Total Assets | \$ 506,538,232 | \$ 589,730,038 |
| <u>Liabilities and Shareholders' Equity</u> | | |
| Current Liabilities: | | |
| Redemptions payable | \$ 38,952,401 | \$ 14,738,573 |
| Accrued Sponsor's fee | 153,619 | 195,543 |
| Total Current Liabilities | 39,106,020 | 14,934,116 |
| Commitments and Contingent Liabilities (note 8) | | |
| Redeemable Capital Shares, at redemption value, no par value, 52,000,000 and 32,000,000 authorized, respectively 3,600,000 and 3,900,000 issued and outstanding, respectively | 467,432,212 | 574,795,922 |
| Shareholders' Equity: | | |
| Retained Earnings | | |
| Cumulative Translation Adjustment | | |
| Total Liabilities and Shareholders' Equity | \$ 506,538,232 | \$ 589,730,038 |

See Notes to Financial Statements.

Table of Contents**CurrencyShares® Euro Trust****Statements of Income and Comprehensive Income****(Unaudited)**

| | Three months ended July 31, 2010 | Three months ended July 31, 2009 | Nine months ended July 31, 2010 | Nine months ended July 31, 2009 |
|--------------------------------------|--|--|---------------------------------------|---------------------------------------|
| <u>Income</u> | | | | |
| Interest Income | \$ 150,146 | \$ 500,289 | \$ 389,164 | \$ 4,733,702 |
| Total Income | 150,146 | 500,289 | 389,164 | 4,733,702 |
| <u>Expenses</u> | | | | |
| Sponsor's fee | (528,334) | (600,103) | (1,769,604) | (1,746,299) |
| Total Expenses | (528,334) | (600,103) | (1,769,604) | (1,746,299) |
| Net (Loss)/Income | \$ (378,188) | \$ (99,814) | \$ (1,380,440) | \$ 2,987,403 |
| Other Comprehensive (Loss)/Income: | | | | |
| Currency translation adjustment | (14,998) | (1,857) | 17,414 | (61,120) |
| Total Comprehensive (Loss)/Income | \$ (393,186) | \$ (101,671) | \$ (1,363,026) | \$ 2,926,283 |
| Basic and Diluted Earnings per Share | \$ (0.09) | \$ (0.02) | \$ (0.32) | \$ 0.68 |
| Weighted-average Shares Outstanding | 4,171,739 | 4,275,000 | 4,365,385 | 4,402,381 |
| Cash Dividends per Share | \$ | \$ 0.04 | \$ | \$ 1.08 |

See Notes to Financial Statements.

Table of Contents**CurrencyShares® Euro Trust****Statements of Changes in Shareholders Equity**

| | Nine months ended July 31, 2010 (Unaudited) | Year ended October 31, 2009 |
|---|--|--|
| Retained Earnings, Beginning of Period | \$ | \$ |
| Net (Loss)/Income | (1,380,440) | 2,535,812 |
| Distributions Paid | | (4,922,939) |
| Adjustment of redeemable capital shares to redemption value | 1,380,440 | 2,387,127 |
| Retained Earnings, End of Period | \$ | \$ |
| Cumulative Translation Adjustment, Beginning of Period | \$ | \$ |
| Currency translation adjustment | 17,414 | (67,545) |
| Adjustment of redeemable capital shares to redemption value | (17,414) | 67,545 |
| Cumulative Translation Adjustment, End of Period | \$ | \$ |

See Notes to Financial Statements.

Table of Contents**CurrencyShares® Euro Trust****Statements of Cash Flows****(Unaudited)**

| | Nine months ended July 31, 2010 | Nine months ended July 31, 2009 |
|--|---------------------------------------|------------------------------------|
| Cash flows from operating activities | | |
| Cash received for accrued income | \$ 345,773 | \$ 7,204,446 |
| Cash paid for expenses | (1,789,127) | (1,807,157) |
| Net cash (used in)/provided by operating activities | (1,443,354) | 5,397,289 |
| Cash flows from financing activities | | |
| Cash received to purchase redeemable shares | 1,263,825,914 | 455,064,284 |
| Cash paid to redeem redeemable shares | (1,277,201,175) | (455,081,941) |
| Cash paid for distributions | | (4,816,717) |
| Net cash used in financing activities | (13,375,261) | (4,834,374) |
| Adjustment to period cash flows due to currency movement | (68,413,205) | 63,507,882 |
| (Decrease)/Increase in cash | (83,231,820) | 64,070,797 |
| Cash at beginning of period | 589,687,376 | 538,448,166 |
| Cash at end of period | \$ 506,455,556 | \$ 602,518,963 |
| Reconciliation of net (loss)/income to net cash (used in)/provided by operating activities | | |
| Net (Loss)/Income | \$ (1,380,440) | \$ 2,987,403 |
| Adjustments to reconcile net (loss)/income to net cash (used in)/provided by operating activities: | | |
| Receivable from accrued interest | (82,676) | (43,469) |
| Prior period receivable from accrued interest | 42,662 | 2,325,782 |
| Currency translation adjustment | 19,024 | 162,733 |
| Accrued sponsor fee | 153,619 | 204,980 |
| Prior period accrued sponsor fee | (195,543) | (240,140) |
| Net cash (used in)/provided by operating activities | \$ (1,443,354) | \$ 5,397,289 |

See Notes to Financial Statements.

Table of Contents

CurrencyShares® Euro Trust

Notes to Financial Statements

(Unaudited)

1. Organization and Description of the Trust

The CurrencyShares® Euro Trust (the Trust) was formed under the laws of the State of New York on December 5, 2005 when Rydex Specialized Products LLC d/b/a Rydex Investments (the Sponsor) deposited 100 euro in the Trust's primary deposit account held by JPMorgan Chase Bank, N.A., London Branch (the Depository). The Sponsor is a Delaware limited liability company whose sole member is Rydex Advisors II, LLC (also d/b/a Rydex Investments). The Sponsor is responsible for, among other things, overseeing the performance of The Bank of New York Mellon (the Trustee) and the Trust's principal service providers, including the preparation of financial statements. The Trustee is responsible for the day-to-day administration of the Trust.

The investment objective of the Trust is for the Trust's shares (the Shares) to reflect the price of the euro plus accrued interest less the Trust's expenses and liabilities. The Shares are intended to provide investors with a simple, cost-effective means of gaining investment benefits similar to those of holding euro. The Trust's assets primarily consist of euro on demand deposit in two deposit accounts maintained by the Depository: a primary deposit account which may earn interest and a secondary deposit account which does not earn interest. The secondary deposit account is used to account for any interest that may be received and paid out on creations and redemptions of blocks of 50,000 Shares (Baskets). The secondary account is also used to account for interest earned, if any, on the primary deposit account, pay Trust expenses and distribute any excess interest to holders of Shares (Shareholders) on a monthly basis.

The accompanying unaudited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q. In the opinion of management, all material adjustments, consisting only of normal recurring adjustments, considered necessary for a fair statement of the interim period financial statements have been made. Interim period results are not necessarily indicative of results for a full-year period. These financial statements and the notes thereto should be read in conjunction with the Trust's audited financial statements included in the Form 10-K filed on December 23, 2009.

2. Significant Accounting Policies

A. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of the assets, liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period and the evaluation of subsequent events through the issuance date of the financial statements. Actual results could differ from those estimates.

B. Foreign Currency Translation

The Trustee calculates the Trust's net asset value (NAV) each business day, as described in Note 4. Prior to November 13, 2008, euro deposits (cash) were translated for NAV calculation purposes at the Noon Buying Rate, which was the U.S. Dollar (USD)/euro exchange rate as determined and published by the Federal Reserve Bank of New York. As of November 13, 2008, euro deposits (cash) are translated for NAV calculation purposes at the Closing Spot Rate, which is the USD/euro exchange rate as determined by WM/Reuters at 4:00 PM (London time) on each day that NYSE Arca is open for regular trading.

Table of Contents

The functional currency of the Trust is the euro in accordance with generally accepted accounting standards. For financial statement reporting purposes, the USD is the reporting currency. As a result, the financial records of the Trust are translated from euro to USD. The Closing Spot Rate on the last day of the period is used for translation in the statements of financial condition. The average Closing Spot Rate for the period is used for translation in the statement of income and comprehensive income and the statement of cash flows. Any currency translation adjustment is included in comprehensive income.

C. Federal Income Taxes

The Trust is treated as a grantor trust for federal income tax purposes and, therefore, no provision for federal income taxes is required. Interest, gains and losses are passed through to the Shareholders.

Shareholders generally will be treated, for U.S. federal income tax purposes, as if they directly owned a pro-rata share of the assets held in the Trust. Shareholders also will be treated as if they directly received their respective pro-rata portion of the Trust's income, if any, and as if they directly incurred their respective pro-rata portion of the Trust's expenses. The acquisition of Shares by a U.S. Shareholder as part of a creation of a Basket will not be a taxable event to the Shareholder.

The Sponsor's fee accrues daily and is payable monthly. For U.S. federal income tax purposes, an accrual-basis U.S. Shareholder generally will be required to take into account as an expense its allocable portion of the USD-equivalent of the amount of the Sponsor's fee that is accrued on each day, with such USD-equivalent being determined by the currency exchange rate that is in effect on the respective day. To the extent that the currency exchange rate on the date of payment of the accrued amount of the Sponsor's fee differs from the currency exchange rate in effect on the day of accrual, the U.S. Shareholder will recognize a currency gain or loss for U.S. federal income tax purposes.

The Trust does not expect to generate taxable income except for interest income (if any) and gain (if any) upon the sale of euro. A non-U.S. Shareholder generally will not be subject to U.S. federal income tax with respect to gain recognized upon the sale or other disposition of Shares, or upon the sale of euro by the Trust, unless: (1) the non-U.S. Shareholder is an individual and is present in the United States for 183 days or more during the taxable year of the sale or other disposition, and the gain is treated as being from United States sources; or (2) the gain is effectively connected with the conduct by the non-U.S. Shareholder of a trade or business in the United States.

A non-U.S. Shareholder's portion of any interest income earned by the Trust generally will not be subject to U.S. federal income tax unless the Shares owned by such non-U.S. Shareholder are effectively connected with the conduct by the non-U.S. Shareholder of a trade or business in the United States.

D. Revenue Recognition

Interest on the primary deposit account, if any, accrues daily as earned and is received on a monthly basis.

E. Dividends

To the extent that the interest earned by the Trust exceeds the sum of the Sponsor's fee for the prior month plus other Trust expenses, if any, the Trust will distribute, as a dividend, the excess interest earned in euro effective on the first business day of the subsequent month. The Trustee will direct that the excess euro be converted into USD at a prevailing market rate and the Trustee will distribute the USD as promptly as practicable to Shareholders on a pro rata-basis (in accordance with the number of Shares that they own).

3. Euro Deposits

Euro principal deposits are held in a euro-denominated, interest-bearing demand account. For the nine months ended July 31, 2010, there were euro principal deposits of 932,564,536, euro principal redemptions of

Table of Contents

962,343,547 and euro withdrawals (to pay expenses) of 1,065,037, resulting in an ending euro principal balance of 358,846,072. This equates to 467,503,155 USD (which is net of USD redemptions payable of 38,952,401). For the year ended October 31, 2009, there were euro principal deposits of 404,954,700, euro principal redemptions of 409,941,175 and euro withdrawals (to pay expenses) of 323,405, resulting in an ending euro principal balance of 389,690,120. This equates to 574,948,803 USD (which is net of USD redemptions payable of 14,738,573).

Net interest, if any, associated with creation and redemption activity is held in a euro-denominated non-interest-bearing account, and any balance is distributed in full as part of the monthly income distributions.

4. Redeemable Capital Shares

Shares are classified as redeemable for financial statement purposes, since they are subject to redemption. Shares are issued and redeemed continuously in Baskets in exchange for euro. Individual investors cannot purchase or redeem Shares in direct transactions with the Trust. Only Authorized Participants (as defined below) may place orders to create and redeem Baskets. An Authorized Participant is a Depository Trust Company (DTC) participant that is a registered broker-dealer or other institution eligible to settle securities transactions through the book-entry facilities of DTC and which has entered into a contractual arrangement with the Trust and the Sponsor governing, among other matters, the creation and redemption process. Authorized Participants may redeem their Shares at any time in Baskets.

Due to expected continuing creations and redemptions of Baskets and the three-day period for settlement of each creation or redemption, the Trust reflects Shares created as a receivable. Shares redeemed are reflected as a liability on the trade date. Outstanding Shares are reflected at a redemption value, which is the NAV per Share at the period end date. Adjustments to redeemable capital shares at redemption value are recorded against retained earnings, or, in the absence of retained earnings, by charges against the cumulative translation adjustment.

Activity in redeemable capital Shares is as follows:

| | Nine months ended | | Year ended | |
|--|------------------------------|-----------------------|------------------|-----------------------|
| | July 31, 2010 (Unaudited) | | October 31, 2009 | |
| | Shares | U.S. Dollar Amount | Shares | U.S. Dollar Amount |
| Opening balance | 3,900,000 | \$ 574,795,922 | 3,950,000 | \$ 502,378,480 |
| Shares issued | 9,350,000 | 1,263,825,914 | 4,050,000 | 553,905,548 |
| Shares redeemed | (9,650,000) | (1,304,182,892) | (4,100,000) | (560,619,175) |
| Adjustment to period Shares due to currency movement and other | | (67,006,732) | | 79,131,069 |
| Ending balance | 3,600,000 | \$ 467,432,212 | 3,900,000 | \$ 574,795,922 |

The Trustee calculates the Trust's NAV each business day. To calculate the NAV, the Trustee subtracts the Sponsor's accrued fee through the previous day from the euro held by the Trust (including all unpaid interest accrued through the preceding day) and calculates the value of the euro in USD based upon the Closing Spot Rate. If, on a particular evaluation day, the Closing Spot Rate has not been determined and announced by 6:00 PM (London time), then the most recent Closing Spot Rate will be used to determine the NAV of the Trust unless the Trustee, in consultation with the Sponsor, determines that such price is inappropriate to use as the

Table of Contents

basis for the valuation. If the Trustee and the Sponsor determine that the most recent Closing Spot Rate is not an appropriate basis for valuation of the Trust's euro, they will determine an alternative basis for the valuation. The Trustee also determines the NAV per Share, which equals the NAV of the Trust divided by the number of outstanding Shares. Shares deliverable under a purchase order are considered outstanding for purposes of determining NAV per Share; Shares deliverable under a redemption order are not considered outstanding for this purpose.

5. Sponsor's Fee

The Sponsor's fee accrues daily at an annual nominal rate of 0.40% of the euro in the Trust (including all unpaid interest but excluding unpaid fees, each as accrued through the immediately preceding day) and is paid monthly.

The Sponsor assumes and pays the following administrative and marketing expenses incurred by the Trust: the Trustee's monthly fee, NYSE Arca listing fees, SEC registration fees, typical maintenance and transaction fees of the Depository, printing and mailing costs, audit fees and expenses, up to \$100,000 per year in legal fees and expenses, and applicable license fees.

In certain exceptional cases the Trust will pay for some expenses in addition to the Sponsor's fee. These exceptions include expenses not assumed by the Sponsor (i.e., expenses other than those identified in the preceding paragraph), taxes and governmental charges, expenses and costs of any extraordinary services performed by the Trustee or the Sponsor on behalf of the Trust or action taken by the Trustee or the Sponsor to protect the Trust or the interests of Shareholders, indemnification of the Sponsor under the Depository Trust Agreement, and legal expenses in excess of \$100,000 per year.