

PACIFICNET INC
Form 10-Q/A
December 17, 2007

**U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM 10-Q/A
(Amendment No.1)**

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

**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: 000-24985

PACIFICNET INC.

(Exact name of registrant in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

91-2118007
(I.R.S. Employer
Identification Number)

**23/F, TOWER A, TIMECOURT, NO.6
SHUGUANG XILI,
CHAOYANG DISTRICT, BEIJING,
CHINA 100028**

(Address of principal executive offices)

N/A

(Zip Code)

Registrant's telephone number, including area code: 0086-10-59225000

Indicate by check mark whether the registrant (1) has filed all reports required 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

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

As of August 1, 2007, there were 11,984,072 shares of the issuer's common stock, par value \$0.0001 per share, outstanding.

EXPLANATORY NOTE:

This Quarterly Report on Form 10-Q/A ("Form 10-A") is being filed as Amendment No. 1 to our Quarterly Report on Form 10-Q for the period ended June 30, 2007, which was originally filed with the Securities and Exchange Commission ("SEC") on August 21, 2007. We are amending and restating the following specific items in this Amendment No. 1:

1. Part I. Item 1. Financial Statements - to restate the financial statements as of, and for the three and six months ended June 30, 2007, and to restate the balance sheet as of December 31, 2006;
 2. Part I. Item II. Management's Discussion And Analysis of Financial Condition and Results of Operations.
 3. Part II. Item 6 - to update the officer certifications for this amended filing.
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PACIFICNET INC.
Form 10-Q/A for the Quarterly Period Ended June 30, 2007

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PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****PACIFICNET INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

(In thousands of United States dollars, except par values and share numbers)

	June 30, 2007 Unaudited Restated	December 31, 2006 Audited Restated
ASSETS		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 4,725	\$ 1,900
Restricted cash - pledged bank deposit	237	234
Accounts receivables, net	9,649	8,141
Inventories	391	201
Loan receivable from related parties	2,351	1,706
Loan receivable from third parties	827	128
Marketable equity securities - available for sale	575	558
Loans to employees	3,293	770
Other receivables, net	490	170
Other current assets	2,251	3,233
Total Current Assets	24,789	17,041
Property and equipment, net	6,925	4,711
Investments in affiliated companies and subsidiaries	34	1,257
Intangible assets, net	337	323
Goodwill	6,258	5,601
Other assets	45	471
Net assets held for disposition	2,535	7,522
TOTAL ASSETS	\$ 40,923	\$ 36,926
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>Current Liabilities:</i>		
Bank line of Credit	\$ 299	\$ 855
Bank loans-current portion	642	576
Capital lease obligations - current portion	100	120
Accounts payable	1,764	1,266
Accrued expenses and other payables	1,921	1,828
Customer deposits	352	352
Loans payable to related party	577	638
Convertible debenture	6,763	8,945
Warrant liability	824	904
Liquidated damages liability	2,697	2,837
Total Current Liabilities	15,939	18,321
<i>Long-term liabilities:</i>		
Bank loans - non current portion	2,162	1,635
Capital lease obligations - non current portion	83	124
Convertible Debenture- non current portion	4,740	-
Total long-term liabilities	6,985	1,759

Total liabilities	22,924	20,080
Minority interest in consolidated subsidiaries	3,272	2,869
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, par value \$0.0001, Authorized 5,000,000 shares Issued and outstanding - none		
Common stock, par value \$0.0001, Authorized 125,000,000 shares; Issued and outstanding: June 30, 2007: 14,355,041 shares issued, 11,782,072 outstanding		
December 31, 2006: 14,155,597 issued, 11,538,664 outstanding	1	1
Treasury stock, at cost (2007 Q2: 2,572,969 shares, 2006: 2,616,933 shares)	(145)	(272)
Additional paid-in capital	67,003	65,757
Cumulative other comprehensive income (loss)	(139)	(42)
Accumulated deficit	(51,509)	(51,090)
Less: stock subscription receivable	(484)	(377)
Total Stockholders' Equity	14,727	13,977
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 40,923	\$ 36,926

The accompanying notes are an integral part of these unaudited consolidated financial statements.

PACIFICNET INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited. In thousands of United States dollars, except earnings per share and share amounts)

	Three month periods ended June 30		Six month periods ended June 30	
	2007 Unaudited Restated	2006 Unaudited Restated	2007 Unaudited Restated	2006 Unaudited Restated
Net Revenues				
Services	\$ 4,299	\$ 4,300	\$ 8,864	\$ 8,035
Product sales	4,722	8,914	9,424	11,851
Total Net Revenues	9,021	13,214	18,288	19,886
Cost of revenues				
Services	(2,832)	(2,909)	(6,185)	(5,486)
Product sales	(3,828)	(8,528)	(7,203)	(11,271)
Total Cost of Revenues	(6,660)	(11,437)	(13,388)	(16,757)
Gross Profit	2,361	1,777	4,900	3,129
Selling, general and administrative expenses	(1,798)	(1,416)	(3,365)	(2,496)
Stock-based compensation expenses	-	(60)	-	(242)
Depreciation and amortization	(216)	(129)	(388)	(158)
Total Operating Expenses	(2,014)	(1,605)	(3,753)	(2,896)
INCOME FROM OPERATIONS	347	172	1,147	233
Other Income (Expenses):				
Interest income (Expenses), net	(232)	(341)	(432)	(393)
Gain in change in fair value of derivatives	20	208	81	208
Sundry income, net	27	48	46	63
Total Other Income (Expenses)	(185)	(85)	(305)	(122)
Income before Income Taxes, Minority Interest and Discontinued Operations	162	86	842	111
Provision for income taxes	22	(13)	(46)	(30)
Share of earnings of associated companies	-	52	-	49
Minority interests	(340)	(179)	(874)	(265)
Loss from Continued Operations	(156)	(54)	(78)	(135)
Loss on disposal	-	-	(971)	-

Income from discontinued operations	400	850	630	1,732
Total discontinued operations income (loss)	400	850	(341)	1,732
Net Income (Loss)	244	796	(419)	1,597
Other comprehensive income/(loss)				
Foreign exchange gain (loss)	(126)	-	(97)	(20)
Net Comprehensive Income (Loss)	\$ 118	\$ 796	\$ (516)	\$ 1,577
Basic Earnings (Loss) per share-Continued Operations	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Basic Earnings (Loss) per share-Discontinued Operations	\$ 0.03	\$ 0.08	\$ (0.03)	\$ 0.16
Basic Earnings (Loss) per share	\$ 0.02	\$ 0.07	\$ (0.04)	\$ 0.15
Diluted Earnings (Loss) per share-Continued Operations	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Diluted Earnings (Loss) per share-Discontinued Operations	\$ 0.03	\$ 0.08	\$ (0.03)	\$ 0.16
Diluted Earnings (Loss) per share	\$ 0.02	\$ 0.07	\$ (0.04)	\$ 0.15
Weighted average number of shares-Basic	11,703,376	11,001,522	11,742,942	10,918,372
Weighted average number of shares-Diluted	11,979,949	11,001,522	12,019,514	10,918,372

The accompanying notes are an integral part of these unaudited consolidated financial statements.

PACIFICNET INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited. In thousands of United States dollars)

	FOR THE SIX MONTH PERIODS ENDED JUNE 30	
	2007 Unaudited Restated	2006 Unaudited Restated
Cash Flows from operating activities		
Net income	\$ (419)	\$ 1,597
<i>Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:</i>		
Equity loss of associated companies	-	(49)
Provision for allowance for doubtful accounts	(691)	-
Minority Interest	874	265
Depreciation and amortization	646	158
Unrealized gain on marketable equity securities	-	(2)
Change in fair value of derivatives	(81)	-
<i>Changes in current assets and liabilities net of effects from purchase of subsidiaries:</i>		
Accounts receivable and other current assets	(2,043)	(11,637)
Inventories	(190)	42
Accounts payable and other accrued expenses	1,650	1,582
Net cash used in operating activities of continued operations	(254)	(8,044)
Net cash provided by operating activities of discontinued operations	2,466	1,732
Net cash provided by operating activities	2,210	(6,312)
Cash flows from investing activities:		
Decrease in restricted cash	(3)	163
Increase in purchase of marketable securities	(17)	(24)
Acquisition of property and equipment	(1,928)	(3,124)
Acquisition of subsidiaries and affiliated companies	88	(4)
Net cash used in investing activities of continued operations	(1,860)	(2,989)
Net cash provided by investing activities of discontinued operations	-	-
Net cash used in investing activities	(1,860)	(2,989)
Cash flows from financing activities:		
Decrease in loan receivables	-	3,339
Loan payable to related party	(61)	(2,160)
Loans receivable from third parties	(699)	-
Loans receivable from related party	(1,671)	(189)
Stock subscription receivables	-	(13)
Repayments under bank line of credit	(556)	(170)
Repayments of amount borrowed under capital lease obligations	(61)	(73)
(Purchase) sale of treasury shares	127	(124)
Proceeds from exercise of stock options and warrants	-	86
Net proceeds from issuance of convertible debenture	5,685	8,000

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Advances under bank loans	(192)	1,706
Net cash provided by financing activities of continued operations	2,572	10,402
Net cash provided by financing activities of discontinued operations	-	-
Net cash provided by financing activities	2,572	