

PACIFICNET INC
Form S-1/A
December 07, 2006

As filed with the Securities and Exchange Commission on December 7, 2006

Registration No. 333-134127

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Amendment No. 5 to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

PacificNet Inc.

(Exact name of Registrant as specified in its charter)

Delaware

*(State or Other Jurisdiction of
Incorporation or Organization)*

3669

*(Primary Standard Industrial
Classification Code Number)*

91-2118007

*(I.R.S. Employer
Identification Number)*

**23/F, Tower A, Timecourt, No.6 Shugang Xili
Chaoyang District, Beijing, China 100028**

*(Address, including zip code, and telephone number,
including area code, of Registrant's principal executive offices)*

**Tony Tong
Chief Executive Officer
PacificNet Inc.**

**23/F, Tower A, Timecourt, No.6 Shugang Xili
Chaoyang District, Beijing, China 100028
0086-10-59225000**

*(Name, address, including zip code, and telephone number,
including area code, of agent for service)*

Copies to:

**Mitchell S. Nussbaum, Esq.
Loeb & Loeb LLP
345 Park Avenue
New York, New York 10154**

Approximate date of commencement of proposed sale to the public: From time to time after this Registration

Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

CALCULATION OF REGISTRATION FEE

| Title of each class of securities to be registered | Amount to be registered | Proposed maximum offering price per share | Proposed maximum aggregate offering price | Amount of registration fee |
|--|-------------------------|---|---|----------------------------|
| Common Stock, \$.0001 par value per share | 800,000(1)(2)\$ | 10.00 (3) \$ | 8,000,000 \$ | 856.00 |
| Common Stock, \$.0001 par value per share | 416,000(2)(4)\$ | 12.20 (5) \$ | 5,075,200 \$ | 543.05 |
| Common Stock, \$.0001 par value per share | 104,000(6) \$ | 10.00 (7) \$ | 1,040,000 \$ | 111.28 |
| Common Stock, \$.0001 par value per share | 26,000 \$ | 7.49 (8) \$ | 194,740 \$ | 20.84 |
| Common Stock, \$.0001 par value per share | 400,000(9) \$ | 10.00 (3) \$ | 4,000,000 \$ | 428.00 |
| Common Stock, \$.0001 par value per share | 208,000(9) \$ | 12.20 (5) \$ | 2,537,600 \$ | 271.52 |
| Common Stock, \$.0001 par value per share | 52,000(9) \$ | 10.00 (3) \$ | 520,000 \$ | 55.64 |
| TOTALS | 2,006,000 | \$ | \$ 21,367,540 | \$ 2,286.33(10) |

(1) Represents the shares of our common stock issuable upon conversion of convertible debentures due March 13, 2009.

(2) Pursuant to Rule 416 of the Securities Act of 1933, as amended, the shares of common stock offered hereby also include such presently indeterminate number of shares of our common stock as shall be issued by us to the selling shareholders as a result of stock splits, stock dividends or similar transactions.

(3) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(g) under the Securities Act of 1933, as amended, based on the higher of (a) the conversion price of the convertible debentures, (b) the offering price of securities of the same class included in this Registration Statement, or (c) the price of securities of the same class as determined using the average of the high and low prices, as reported on The Nasdaq National Market, within five business days of the filing of this Registration Statement.

(4) Represents shares of our common stock issuable upon the exercise of outstanding warrants.

(5) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(g) under the Securities Act of 1933, as amended, based on the higher of (a) the exercise price of the warrants, (b) the offering price of securities of the same class included in this Registration Statement, or (c) the price of securities of the same class as determined using the average of the high and low prices, as reported on The Nasdaq National Market, within five business days of the filing of this Registration Statement.

(6) Represents shares of our common stock that may be issued in the form of the payment of interest on the convertible debentures due March 13, 2009.

(7) Assuming the debentures remain outstanding for three years and based upon the higher of (a) the highest conversion price at which shares issuable as interest on the convertible debentures will be issued, (b) the offering price of securities of the same class included in this Registration Statement, or (c) the price of securities of the same class as determined using the average of the high and low prices, as reported on The Nasdaq National Market, within five

business days of the filing of this Registration Statement.

(8) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended based on the average of the high and low prices, as reported on The Nasdaq National Market, within five business days of the filing of this Registration Statement.

(9) Under the terms of the registration rights agreement, we are required to register 150% of the shares of common stock issuable upon conversion of the debentures, the warrants, and interest on the convertible debentures.

(10) Previously paid.

Pursuant to Rule 429 under the Securities Act of 1933, the prospectus included in this registration statement is a combined prospectus relating also to Registration Statement No. 333-121792 previously filed by the registrant on Form SB-2 and declared effective on February 4, 2005. This Registration Statement, upon effectiveness, also constitutes Post-Effective Amendment No. 1 to Registration Statement No. 333-121792, and such post-effective amendment shall hereafter become effective concurrently with the effectiveness of this Registration Statement and in accordance with Section 8(c) of the Securities Act of 1933.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said section 8(a), may determine.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDERS MAY NOT SELL THESE SECURITIES PUBLICLY UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED December 7, 2006

PROSPECTUS

PACIFICNET INC.

3,152,228 Shares of Common Stock

This prospectus relates to the resale of up to 3,152,228 shares of our common stock being offered by the selling stockholders. Of the shares covered by this prospectus, 602,310 shares have been issued, 800,000 shares are issuable upon the conversion of convertible debentures, 985,918 shares are issuable upon the exercise of warrants, 104,000 shares may be issued for the payment of interest on the convertible debentures and 660,000 shares have been registered pursuant to our obligation in our registration rights agreement to register 150% of the shares of common stock issuable upon conversion of the debentures, warrants and interest on the debentures. Of the shares of common stock included in this prospectus, 1,152,228 of the shares were previously registered. We will not receive any proceeds from the sale of the shares of common stock by the selling stockholders. Assuming that all of the warrants held by the selling stockholders are exercised for cash, we will realize proceeds of approximately \$10,606,647.

Our shares of common stock are traded on The Nasdaq Global Market under the symbol "PACT." The last reported sale price of our common stock on December 5, 2006, was \$4.74.

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE SHARES ONLY IF YOU CAN AFFORD A COMPLETE LOSS OF YOUR INVESTMENT. SEE "RISK FACTORS" BEGINNING ON PAGE 5 FOR A DISCUSSION OF RISKS APPLICABLE TO US AND AN INVESTMENT IN OUR COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is December __, 2006.

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PROSPECTUS SUMMARY

This summary highlights selected information appearing elsewhere in this prospectus. While this summary highlights what we consider to be the most important information about us, you should carefully read this prospectus and the registration statement of which this prospectus is a part in their entirety before investing in our common stock, especially the risks of investing in our common stock, which we discuss later in “Risk Factors,” and our financial statements and related notes beginning on page F-1. Unless the context requires otherwise, the words “we,” “us” and “our” refer to PacificNet Inc.

About PacificNet Inc.

We were incorporated in the state of Delaware in 1987. We are a leading provider of customer relationship management (CRM) and telecom services, e-commerce and gaming technology in China. Our business consists of three groups, all of which operate within the outsourcing and telecommunications industries in Asia, primarily greater China, which includes the People's Republic of China (PRC), or mainland China, Hong Kong Special Administrative Region (HKSAR), Macau Special Administrative Region, and Taiwan, and one group that focuses on primarily administrative and corporate related matters. Through our subsidiaries we provide outsourcing services, telecom (VAS) services, and products (telecom & gaming) services. Our business process outsourcing (BPO) services include call centers providing CRM and telemarketing services, and our information technology outsourcing (ITO) includes software programming and development. We are value-added resellers and providers of telecom VAS, which comprises interactive voice response (IVR) systems, call center management systems, and VOIP, as well as mobile phone VAS, such as short messaging services (SMS) and multimedia messaging services (MMS). In 2004, we commenced our communication products distribution service, through wholesale and, to a lesser extent, retail sale and distribution of mobile phones, software and hardware, mobile accessories, and calling cards in Hong Kong and China. In 2005, we invested in Take1Technologies (formerly known as Cheer Era), a company that designs, manufactures, and distributes multimedia interactive self-service kiosks, bingo and gaming machines for the casino and slot machine operators Europe and Asia.

Our BPO services generate revenue from call center services, call center management software sales, and training and consulting. We invoice our call center clients monthly at per seat monthly rates, a base price plus commission per call, or a per hour charge rate, depending on the client's preference. Our call center software clients pay per license, for which there is usually a one-time charge on sale of the software and annual maintenance fees for service. We charge per project for our consulting and training services and for our telecom VAS, which are invoiced throughout the project. Our telecom VAS often includes a post-sale service contract for systems integration and consulting services for which we bill separately. Our communication products such as calling cards, kiosks and cell phones are sold cash-on-delivery. Our gaming center operations generate revenue through the sale of gaming machines to casinos, or through resellers who sell to casinos.

Our clients include the leading telecom operators, banks, insurance, travel, marketing, and service companies, as well as telecom consumers, in Greater China. Clients include China Telecom, China Netcom, China Mobile, China Unicom, PCCW, Hutchison Telecom, CSL, SmarTone, Sunday, Swire Travel, Coca-Cola, SONY, Samsung, Motorola, Nokia, TNT Express, Huawei, TCL, Dun & Bradstreet, American Express, Bank of China, DBS, Hong Kong Government, and Hongkong Post. PacificNet employs over 2,300 staff in our various subsidiaries in China with offices in Hong Kong, Beijing, Shanghai, Shenzhen, and Guangzhou.

PacificNet's operations include the following four groups:

- (1) Outsourcing Services: including BPO, call center, IT Outsourcing (ITO) and software development services.
- (2) Telecom Value-added Services: including Content Providing (CP), IVR, Platform Providing (PP) and Service Providing (SP).
- (3) Products (Telecom & Gaming): including communication and gaming products, GSM/CDMA/3G Products and Multimedia Communication Kiosks.
- (4) Other Business: including internal administrative matters, other related corporate items, and other businesses.

Private Placement of Convertible Debentures and Warrants

On March 13, 2006, we completed a private placement in which we sold \$8,000,000 in convertible debentures and issued warrants to purchase up to an aggregate of 400,000 shares of common stock. The debentures are convertible at any time into shares of our common stock at an initial fixed conversion price of \$10.00 per share, subject to adjustments for certain dilutive events. The debentures are due March 13, 2009. The warrants are exercisable for a period of five years at an exercise price of \$12.20 per share. At the closing of the private placement, we prepaid the first year's interest on debentures equal to 5% of the aggregate principal amount of debentures. We will pay interest in cash or shares, provided that certain conditions are met, at the rate of 6% for the second year the debentures are outstanding and then 7% for the third. Beginning January 1, 2007, we are obligated to redeem up to \$320,000 every month, plus accrued, but unpaid interest, liquidated damages and penalties. We also have the option to prepay the debentures at any time, provided that certain conditions have been met, after the 12 month anniversary of the effective date of the registration statement of which this prospectus is part, some or all of the outstanding debentures for cash in an amount equal to 120% of the principal amount outstanding, plus accrued, but unpaid interest, liquidated damages and penalties outstanding. At any time after the six month anniversary of the effective date, we may force the holders to convert up to 50% of the then outstanding principal amount of the debentures, subject to certain trading conditions being met. If any event of default occurs under the debentures or other related documents, the holders may elect to accelerate the payment of the outstanding principal amount of the debenture, plus accrued, but unpaid interest, liquidated damages and penalties, which shall become immediately due and payable.

Under the terms of the registration rights agreement, dated February 28, 2006, entered into among the Company and the holders, we are obligated to register for resale 150% of the shares of common stock issuable upon conversion of the debentures and the warrants, and interest on the convertible debentures. We are currently in default under the private placement transaction documents for the untimely filing of the registration statement, of which this prospectus is part, and for the failure to have the registration statement declared effective prior to the effectiveness date set forth in the registration rights agreement. As of November 1, 2006, we could be liable for liquidated damages of approximately \$800,000 as a result of the foregoing. As of the date of this prospectus, we have paid \$35,000 in liquidated damages to one holder. As of the date of this prospectus the holders have not elected to accelerate the payment of the outstanding principal and interest owing on the debenture.

Also in connection with the private placement, Messrs. Tony Tong, Victor Tong and Shaojian Wang and Sino Mart Management Ltd., and its sole officer and director, Mr. Cho Sam Tong, entered into lock-up agreements restricting the disposition of shares of our common stock beneficially owned by them until the earlier of 30 days from the effective date of the registration statement, or February 28, 2008.

Messrs. Tony and Victor Tong, Wang and Sino Mart Management Ltd. each executed letter agreements to the holders of the convertible debentures and warrants, in which they each agreed to vote all of the shares of the Company over which they have voting control in favor of any resolutions presented to the stockholders of the Company to approve the issuance, in the aggregate, of more than 19.999% of the number of shares of common stock of the Company outstanding on the closing date of the private placement. They executed each letter agreement in consideration of, and as a condition to the consummation of the private placement.

C.E. Unterberg, Towbin L.L.C. acted as Placement Agent and received a cash fee in the amount of \$449,500 and a warrant to purchase up to 16,000 shares. Maxim Group also acted as Placement Agent and received a cash fee in the amount of \$50,000.

RECENT DEVELOPMENTS

Unwinding of Business Acquisition

On December 19, 2005, we announced the execution by our wholly-owned subsidiary, PacificNet Strategic Investment Holdings Limited ("PacInvest"), of an Agreement for the Sale and Purchase of 100% of Lion Zone Holdings Limited (the "Sale and Purchase Agreement"). Pursuant to the terms of the Sale and Purchase Agreement, PacInvest acquired a 51% interest in Lion Zone Holdings Limited ("Lion Zone"), which holds a 100% interest in Shenzhen GuHaiGuanChao Investment Consultant Co., Ltd. ("ChinaGoHi"), a wholly-owned foreign enterprise (WOFE) registered in China and a provider of DRTV infomercial marketing company for financial advisory services in China.

On November 20, 2006, PacInvest executed an agreement to terminate (the "Termination Agreement"), the Sale and Purchase Agreement with Lion Zone, ChinaGoHi and Mr. Wang Wenming (collectively, the "Sellers"). The Termination Agreement was effective as of November 1, 2006. As a result of the Termination Agreement, Mr. Wang Wenming and Lion Zone agreed to return to PacInvest, (1) HKD\$3,000,000, (2) USD\$100,000 in cash, and (3) 275,000 of our restricted shares, and PacInvest returned its 51% interest in Lion Zone to Mr. Wang. Additionally, the Sellers agreed to waive PacInvest's obligation during the term of the Sale and Purchase Agreement to issue the restricted shares and to provide certain loans to the Sellers. PacInvest reserved its right to re-purchase the 51% interest within 2 years of the date of signing the Termination Agreement for a purchase price of 5 times net profit based on U.S. GAAP audited financials for a period of 12 months after signing. All of the parties to the Termination Agreement agreed to waive any liabilities of each party which may result from the Termination Agreement.

The decision to terminate the Sale and Purchase Agreement was due to ChinaGoHi's inability to obtain the approval of, and get the necessary license to operate from, the China Securities Regulatory Commission ("CSRC"). We have previously disclosed in our periodic reports filed with the Securities and Exchange Commission that in the past, the Chinese government has stopped the distribution of information that it believes violates PRC law over the Internet or through VAS. We have disclosed the risk that if the PRC government were to take any action to limit or prohibit the distribution of information through our networks or via our VAS, or to limit or regulate any current or future content or services available to users on our network, our business could be significantly harmed. In July 2006, the Chinese Broadcasting Bureau along with the CSRC banned the TV membership sales model, which was the model ChinaGoHi employed in its business. The Sale and Purchase Agreement provided that if ChinaGoHi or Lion Zone was banned or in any way restricted from conducting business under the existing or new PRC laws or legislation during the period from signing the Sale and Purchase Agreement to July 1, 2006, and ChinaGoHi failed to change its business model in good faith to adapt to the new regulations, and such failure resulted in any shortcoming of the accumulated net profit, ChinaGoHi and Lion Zone would return to PacInvest all the cash and shares they obtained under the Agreement.

Business Acquisition

In August 2006, PacificNet Games Limited (PacGames) completed the acquisition of 100% of Able Entertainment Technology Ltd, a leading provider of Asian multi-player electronic gaming machines, gaming technology solutions and gaming related maintenance, IT and distribution services for the leading hotel, casino and slot hall operators based in Macau, China and other Asian gaming markets. Macau is expected to surpass Las Vegas in total revenues by 2006. Currently, table games make up the bulk of Macau casino revenues, which is in sharp contrast to other areas such as Las Vegas. With this acquisition, PacGames is a leading developer of electronic versions of these popular table games which are less expensive to run resulting in higher casino profits with great appeal to the mass market players. Further, the growing market in Macau is for Asian table games such as Baccarat, Roulette, Fan Tan, Fish-Prawn-Crab and Sic-Bo Cussec as these games have wider acceptance in the Asian market than Western games such as poker or slots. The development, manufacturing, maintenance, and service of electronic Asian table games are underserved areas which are predicted to grow considerably as Macau's gaming market matures. PacGames products include multi-play

electronic gaming machines such as Baccarat, Fish-Prawn-Crab, Sib-Bo Cussec, Roulette, and Video Lottery Terminals (VLT) such as Keno and Bingo, as well as other traditional slot machines. We intend to continue to grow our business by acquiring and managing growing technology and network communications businesses with established products and customers in Asia.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table summarizes the relevant financial data for our business and should be read with our financial statements, which appear elsewhere in this prospectus.

CONSOLIDATED STATEMENT OF OPERATIONS DATA

| | Nine months ended September 30, | | | Year Ended December 31, | | | 2001 |
|--|--|----------------------------------|--------------------------|-------------------------|--------------------------|----------|---------|
| | 2006(unaudited) | 2005(unaudited) (as restated) | 2005 (as restated) | 2004 | 2003 (as restated) | 2002 | |
| Statement of Operations Data: | (in thousands, except per share data) | | | | | | |
| Revenues | \$ 47,239 | \$ 32,539 | \$ 44,341 | \$ 29,709 | \$ 1,217 | \$ 2,319 | \$ 961 |
| Cost of revenues | (33,352) | (25,979) | (33,439) | (24,074) | (698) | (1,787) | (803) |
| Gross margin | 13,887 | 6,560 | 10,902 | 5,635 | 519 | 532 | 158 |
| Operating expenses: selling, general and administrative | (11,599) | (3,536) | (6,104) | (3,513) | (1,856) | (3,176) | (4,044) |
| Interest expense | (851) | (182) | (229) | (185) | - | - | - |
| Earnings/(Loss) from operations | 1,437 | 2,842 | 4,569 | 1,937 | (1,337) | (2,644) | (3,886) |
| Interest income | 177 | 155 | 246 | 79 | 27 | 33 | 187 |
| Other income | 173 | 577 | 830 | 422 | 54 | - | - |
| Liquidated damages expense | (800) | - | - | - | - | - | - |
| Changes in fair value of derivatives | 1,212 | - | - | - | - | - | - |
| Provision for impairment losses in affiliated companies | - | - | - | - | - | (97) | (1,093) |
| Earnings before income tax, minority interests and discontinued operations | 2,199 | 3,574 | 5,645 | 2,438 | (1,256) | (2,708) | (4,792) |
| Provision for Income Tax | (319) | (51) | (222) | (30) | (32) | - | - |
| Share of earnings of associated company | 129 | 12 | (8) | 32 | - | - | (34) |
| Loss from discontinued operations | - | - | - | (43) | - | (107) | (179) |
| Minority Interests | (1,405) | (1,916) | (2,926) | (1,623) | 7 | (106) | - |
| | 604 | 1,619 | 2,489 | 774 | (1,281) | (2,921) | (5,005) |

Net earnings
available to
common
stockholders
Continuing
Operations:

| | | | | | | | |
|---|------|------|------|------|--------|--------|--------|
| Basic earnings/(loss) per share | 0.05 | 0.16 | 0.25 | 0.11 | (0.24) | (0.67) | (2.99) |
| Diluted earnings/(loss) per share | 0.05 | 0.15 | 0.23 | 0.09 | (0.24) | (0.67) | (2.99) |
| Discontinued Operations: | | | | | | | |
| Basic earnings/(loss) per share | - | - | - | - | - | (0.03) | (0.11) |
| Diluted earnings/(loss) per share | - | - | - | - | - | (0.03) | (0.11) |

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CONSOLIDATED BALANCE SHEET DATA

| | As of September 30, 2005 | | | As of December 31, | | | 2002 | 2001 |
|---|-----------------------------|---------------------------------|--------------------------|--------------------------|--------------------------|----------|----------|------|
| | 2006 (unaudited) | (unaudited) (as restated) | 2005 (as restated) | 2004 (as restated) | 2003 (as restated) | | | |
| Balance Sheet Data: | (in thousands) | | | | | | | |
| Cash and cash equivalents | \$ 7,439 | \$ 5,168 | \$ 9,579 | \$ 6,764 | \$ 3,823 | \$ 3,694 | \$ 1,344 | |
| Accounts receivable | 13,116 | 7,670 | 5,998 | 5,644 | 1,890 | 220 | 199 | |
| Property and equipment, net | 8,731 | 4,746 | 4,300 | 1,118 | 466 | 284 | 332 | |
| Total assets | 67,070 | 43,365 | 51,203 | 33,250 | 7,770 | 4,314 | 2,555 | |
| Total current liabilities | 9,600 | 7,244 | 10,620 | 5,346 | 4,845 | 930 | 840 | |
| Total liabilities | 19,079 | 7,361 | 10,704 | 5,544 | 5,371 | 930 | 840 | |
| Minority interest in consolidated subsidiaries | 11,586 | 5,316 | 8,714 | 2,396 | (110) | 131 | 33 | |
| Total stockholders' equity | 36,405 | 30,688 | 31,785 | 25,310 | 2,509 | 3,253 | 1,682 | |

Executive Offices

Our executive offices are located in Beijing, Hong Kong, Shenzhen and Guangzhou, China at the following addresses:

PacificNet Beijing Office: 23/F, Building A, TimeCourt, No.6 Shuguang Xili, Chaoyang District, Beijing, China
Postal Code: 100028. Tel:86-010-59225020, Fax: 86-010-59225001 and Email: BJ-Office@PacificNet.com.

PacificNet Limited Hong Kong Office: 601 New Bright Building, 11 Sheung Yuet Road, Kowloon Bay, Kowloon,
Hong Kong. Tel: 011-852-2876-2900, Fax: 011-852-27930689 and E-mail: HKOffice@PacificNet.com.

PacificNet Shenzhen Office: Room 901, Tower A, Tian An High-Tech Plaza, Tian An Cyber Park, Fu Tian District,
Shenzhen, China Postal Code: 518040. Tel:011-86-7553360672, Fax: 011-86-7553360675 and Email:
SZ-Office@PacificNet.com.

PacificNet Guangzhou Office: 15/F, Building A, Huajian Plaza, No. 233 Tianfu Road, Tianhe District, Guangzhou,
China Postal Code: 510630. Tel: 011-86-020-85613432, Fax: 011-86-020-81613659 and Email:
GZ-Office@PacificNet.com.

RISK FACTORS

Investing in our securities involves a great deal of risk. Careful consideration should be made of the following factors as well as other information included in this prospectus before deciding to purchase our common stock. You should pay particular attention to the fact that we conduct a majority of our operations in China and are governed by a legal and regulatory environment that in some respects differs significantly from the environment that may prevail in other countries. Our business, financial condition or results of operations could be affected materially and adversely by any or all of these risks.

THE FOLLOWING MATTERS MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION, LIQUIDITY, RESULTS OF OPERATIONS OR PROSPECTS, FINANCIAL OR OTHERWISE. REFERENCE TO THIS CAUTIONARY STATEMENT IN THE CONTEXT OF A FORWARD-LOOKING STATEMENT OR STATEMENTS SHALL BE DEEMED TO BE A STATEMENT THAT ANY ONE OR MORE OF THE FOLLOWING FACTORS MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN SUCH FORWARD-LOOKING STATEMENT OR STATEMENTS.

RISKS RELATED TO OUR BUSINESS

WE HAVE A LIMITED OPERATING HISTORY AND RECENTLY EXPERIENCED A SIGNIFICANT INCREASE IN REVENUE THAT MAY NOT BE SUSTAINED.

Our business operations commenced in 1994, and subsequently the business was incorporated as a Delaware corporate entity in 1999. Our operating history may be insufficient to evaluate our business and future prospects. Although our revenue have grown rapidly in the past two years, primarily as a result of our increased acquisition activity, we cannot assure investors that we will maintain our profitability or that we will not incur net losses in the future. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties in implementing our business model, including our potential failure to:

- increase awareness of our brands, protect our reputation and develop customer loyalty;
- manage our expanding operations and service offerings, including the integration of any future acquisitions;
- maintain adequate control of our expenses; and
- anticipate and adapt to changing conditions in the markets in which we operate as well as the impact of any changes in government regulation, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

If we are not successful in addressing any or all of these risks, our business may be materially and adversely affected.

THE ACQUISITION OF NEW BUSINESSES IS COSTLY AND SUCH ACQUISITIONS MAY NOT ENHANCE OUR FINANCIAL CONDITION.

Our growth strategy is to acquire companies and identify and acquire assets and technologies from businesses in greater China that have services, products, technologies, industry specializations or geographic coverage that extend or complement our existing business. The process to undertake a potential acquisition is time-consuming and costly. We expend significant resources to undertake business, financial and legal due diligence on our potential acquisition target and there is no guarantee that we will acquire the company after completing due diligence. Any future acquisitions will be subject to a number of challenges, including:

- the diversion of management time and resources and the potential disruption of our ongoing business;
 - difficulties in maintaining uniform standards, controls, procedures and policies;
 - potential unknown liabilities associated with acquired businesses;
- the difficulty of retaining key alliances on attractive terms with partners and suppliers; and
- the difficulty of retaining and recruiting key personnel and maintaining employee morale.

Our acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities and exposure to undisclosed or potential liabilities of acquired companies. During the fiscal year ended December 31, 2005, we acquired a controlling interest in Guangzhou 3G Information Technology Co. Ltd. (“Guangzhou3G-WOFE”), Guangzhou Clickcom Digit-net Science and Technology Ltd. (“Clickcom-WOFE”) and Shenzhen GuHaiGuanChao Investment Consultant Company Limited (“ChinaGoHi”), a wholly owned foreign enterprise (WOFE) registered in China. We expect that acquisitions will strengthen our position as a provider of outsourced call center, VAS and communication products in Asia. Although our agreements provide that the consideration is payable upon the acquired company attaining certain income milestones annually, there is no guarantee that these milestones will be reached. If they are not reached as anticipated, the time, cost and capital to acquire the company may outweigh the anticipated benefits from consolidation of their income. At December 31, 2005, PacificNet's consolidated balance sheet reflects approximately \$14.8 million of goodwill, primarily as a result of several acquisitions that is not subject to amortization in the ordinary course of business. To the extent that the businesses acquired in these transactions do not remain competitive, some or all of the goodwill related to that acquisition could be charged against future earnings.

A SUBSTANTIAL PORTION OF OUR BUSINESS DEPENDS ON MOBILE TELECOMMUNICATIONS OPERATORS IN CHINA AND ANY LOSS OR DETERIORATION OF SUCH RELATIONSHIPS MAY RESULT IN SEVERE DISRUPTIONS TO OUR BUSINESS OPERATIONS.

We rely entirely on the networks and gateways of China Mobile and China Unicom to provide our wireless value-added services. Thus, we face certain risks in conducting our wireless value-added services business, such as the following:

- (1) Currently, China Mobile and China Unicom are the only mobile telecommunications operators in China that have platforms for wireless value-added services. Our agreements with them are generally for a period of less than one year and generally do not have automatic renewal provisions. If neither of them is willing to continue to cooperate with us, we will not be able to conduct our existing wireless value-added services business.
- (2) Our agreements with China Mobile and China Unicom are subject to negotiation upon expiration. If any of the mobile telecommunications operators decides to change its content or transmission fees or its share of revenue, or does not comply with the terms of the agreement, our revenue and profitability could be materially adversely affected.

THE MOBILE TELECOMMUNICATIONS OPERATORS MAY LAUNCH AND MAY HAVE ALREADY LAUNCHED COMPETING SERVICES OR COULD DISCONTINUE THE USE OF EXTERNAL CONTENT AGGREGATORS SUCH AS OURSELVES ENTIRELY AT ANY TIME.

Due to our reliance on the mobile telecommunications operators for our wireless value-added services, any loss or deterioration of our relationship with any of the mobile telecommunications operators may result in severe disruptions to our VAS business operations and the loss of a significant portion of our revenue.

OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS MAY BE MATERIALLY AFFECTED BY THE CHANGES IN POLICIES OR GUIDELINES OF THE MOBILE TELECOMMUNICATIONS OPERATORS.

The mobile telecommunications operators in China may, from time to time, issue certain operating policies or guidelines, requesting or stating its preference for certain actions to be taken by all wireless value-added service providers using their platforms. Due to our reliance on the mobile telecommunications operators, a significant change in their policies or guidelines may have a material adverse effect on us. For example, some mobile

telecommunications operators recently revised their billing policies to request all wireless value-added service providers to confirm the subscription status of those users who have not been active for three months. Such change in policies or guidelines may result in lower revenue or additional operating costs for us, and we cannot assure investors that our financial condition and results of operations will not be materially adversely affected by any policy or guideline change by the mobile telecommunications operators in the future.

WE MAY BE SUBJECT TO ADVERSE ACTIONS FOR ANY BREACH OR PERCEIVED BREACH BY US OF THE POLICIES OR GUIDELINES IMPOSED BY THE MOBILE TELECOMMUNICATIONS OPERATOR WITH RESPECT TO CONTENT PROVIDED ON OR LINKED THROUGH OUR WEBSITES.

The mobile telecommunications operators in China may impose policies or guidelines to govern or restrict the content provided by all wireless value-added service providers, including content developed by us or content supplied by others to us. The mobile telecommunications operators from time to time have requested wireless value-added services providers, including us, to remove objectionable content or links to or from websites with certain categories of content, including content that they may deem to be sexually explicit. We aggregate and develop content that we consider attractive to our targeted user base, and we cannot assure investors that the mobile telecommunications operators will not from time to time find certain portions of our content to be objectionable. In the case of a breach or perceived breach of such policies or guidelines, the mobile telecommunications operators may require us to reduce or curtail the content on our Internet portal, which may reduce our portal traffic, and the mobile telecommunications operators may have the right to impose monetary fines upon us, or terminate our cooperation with them. In addition, we would be liable to the mobile telecommunications operators for their economic losses pursuant to our agreements with these operators if we were found to be in breach of the policies or guidelines promulgated by them. As a result of the occurrence of any of the above, our financial condition and results of operations may be materially adversely affected.

OUR DEPENDENCE ON THE SUBSTANCE AND TIMING OF THE BILLING SYSTEMS OF THE MOBILE TELECOMMUNICATIONS OPERATORS MAY REQUIRE US TO ESTIMATE PORTIONS OF OUR REPORTED REVENUE FOR WIRELESS VALUE-ADDED SERVICES FROM TIME TO TIME. AS A RESULT, SUBSEQUENT ADJUSTMENTS MAY HAVE TO BE MADE TO OUR WIRELESS VALUE-ADDED SERVICES REVENUE IN OUR FINANCIAL STATEMENTS.

As we do not bill our wireless value-added services users directly, we depend on the billing systems and records of the mobile telecommunications operators to record the volume of our wireless value-added services provided, charge our users through mobile telephone bills and collect payments from our users and pay us. In addition, we do not generally have the ability to independently verify or challenge the accuracy of the billing systems of the mobile telecommunications operators. Generally, within 20 to 60 days after the end of each month, a statement from each of the mobile telecommunications operators confirming the value of wireless value-added services they bill to users in that month will be delivered to us, and generally within 60 days after such delivery, we will be paid by the mobile telecommunications operators for the wireless value-added services, net of their revenue share, transmission fees and applicable business taxes, for that month based on such statements.

OUR COMMUNICATION PRODUCTS ARE PROVIDED CASH-ON-DELIVERY, WHICH LEAVES US VULNERABLE TO THEFT AND EMPLOYEE EMBEZZLEMENT.

The purchase of calling cards, SIM cards and other mobile phone products are made with cash. Although there is a low risk that clients will not pay for these services when delivered, our retail stores maintain cash on hand which might make them robbery targets. We also face the risk that employees who collect the cash and others who may be aware that cash is available at these sites might embezzle the money. Theft or embezzlement could have a material adverse effect on the revenue generated and the financial condition of our business operations.

WE INTEND TO OPERATE EACH OF OUR ACQUIRED BUSINESSES ON A STANDALONE BASIS.

We do not intend to integrate the information or communications systems, management, or other aspects of the businesses we acquire. If we integrated the businesses, we might be able to reduce expenses by eliminating duplicative personnel, facilities, or technology and other costs. In addition, facilities and technology integration might make inter-company communications and transactions more efficient. By declining to integrate the acquired businesses, we might forego opportunities to operate more profitably. Furthermore, our decision not to integrate these businesses might result in difficulties in evaluating the effectiveness of our internal control over financial reporting, which could complicate compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

BECAUSE WE DO NOT HAVE EMPLOYMENT AGREEMENTS WITH MANAGEMENT OF THE ACQUIRED COMPANIES, OUR BUSINESS OPERATIONS MIGHT BE INTERRUPTED IF THEY WERE TO RESIGN AND SEEK EMPLOYMENT WITH COMPETITORS.

As part of our acquisition strategy, we do not use our own employees or members of our management team to operate the acquired companies. Key management at these companies has been in place for several years and has established solid relationships with their customers. Competition in our industry for executive-level personnel is strong and we can make no assurance that we will be able to retain the highly effective executive employees. Although we provide incentives to management to stay with the acquired business, we have not entered into employment agreements with them. If such key persons were to resign we might face impairment of relationships with remaining employees or customers, which might result in further resignation by employees, and might cause long-term clients to terminate their relationship with us. Furthermore, we have not entered into any non-competition and confidentiality agreements with these employees and management. Due to the limited enforceability of these types of agreements in China, we face the risk that employees of the acquired subsidiaries might divulge our software and other protected intellectual property secrets to competitors.

OUR CUSTOMERS ARE CONCENTRATED IN A LIMITED NUMBER OF INDUSTRIES.

Our clients are concentrated primarily in the telecommunications, telemarketing and technology industries, and to a lesser extent, the insurance and financial services industries, where the current trend is to outsource certain CRM and VAS. Our ability to generate revenue depends on the demand for our services in these industries. An economic downturn, or a slowdown or reversal of the tendency in any of these industries to rely on outsourcing could have a material adverse effect on our business, results of operations or financial condition.

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THE MARKET IN WHICH WE COMPETE IS HIGHLY COMPETITIVE AND FRAGMENTED AND WE MAY NOT BE ABLE TO MAINTAIN MARKET SHARE.

We expect competition to persist and intensify in the future. Our competitors are mainly leaders in the CRM services market, such as PCCW Teleservices (Hong Kong) Limited, China Motion Telecom International Limited, and Teletech (Hong Kong) Limited. Our competitors also include small firms offering specific applications, divisions of large entities and other large independent firms. We face the risk that new competitors with greater resources than ours will enter our market. Furthermore, increasing competition among telecom companies in greater China has led to a reduction in telecommunication services fees that can be charged by such companies. If a reduction in telecommunication services fees negatively impacts revenue generated by our clients, they may require us to reduce the price of our services, or seek competitors of ours that charge less. If we must significantly reduce the price of our services, the decrease in revenue could adversely affect our profitability.

KEY EMPLOYEES ARE ESSENTIAL TO GROWING OUR BUSINESS.

Tony Tong, our Chairman and Chief Executive Officer, and Victor Tong, our President, are essential to our ability to continue to grow through acquisitions. Messrs. Tong and Tong have established relationships within our industry. Their business contacts have been critical in identifying and negotiating with acquisition candidates. If either of them were to leave our employ, our growth strategy might be hindered, which could limit our ability to increase revenue.

THE ESTABLISHMENT AND EXPANSION OF INTERNATIONAL OPERATIONS REQUIRES SIGNIFICANT MANAGEMENT ATTENTION.

All of our current, as well as any anticipated future revenue, are or are expected to be derived from Asia. Our international operations are subject to risks, including the following, which, if not planned and managed properly, could materially adversely affect our business, financial condition and operating results:

- legal uncertainties or unanticipated changes regarding regulatory requirements, liability, export and import restrictions, tariffs and other trade barriers;
- longer customer payment cycles and greater difficulties in collecting accounts receivable;
- uncertainties of laws and enforcement relating to the protection of intellectual property; and
- potentially uncertain or adverse tax consequences.

OUR OPERATIONS COULD BE CURTAILED IF WE ARE UNABLE TO OBTAIN REQUIRED ADDITIONAL FINANCING.

Since inception our investments and operations primarily have been financed through sales of our common stock. In the first quarter of 2006 we completed a financing of convertible debentures for \$8,000,000. In the future we may need to raise additional funds through public or private financing, which may include the sale of equity securities, including securities convertible into our common stock. The issuance of these equity securities could result in dilution to our stockholders. If we are unable to raise capital when needed, our business growth strategy may slow, which could severely limit our ability to increase revenue.

FLUCTUATIONS IN THE VALUE OF THE HONG KONG DOLLAR OR RMB RELATIVE TO FOREIGN CURRENCIES COULD AFFECT OUR OPERATING RESULTS.

We have historically conducted transactions with customers outside the United States in United States dollars. Payroll and other costs of foreign operations are payable in foreign currencies, primarily Hong Kong dollars and Chinese renminbi. To the extent future revenue is denominated in foreign currencies, we would be subject to increased risks relating to foreign currency exchange rate fluctuations that could have a material adverse affect on our business, financial condition and operating results. The value of Hong Kong dollars and Chinese renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. As our operations are primarily in Asia, any significant revaluation of Hong Kong dollars or the Chinese renminbi may materially and adversely affect our cash flows, revenue and financial condition. For example, to the extent that we need to convert U.S. dollars into Hong Kong dollars or Chinese renminbi for our operations, appreciation of either currency against the U.S. dollar could have a material adverse effect on our business, financial condition and results of operations. Conversely, if we decide to convert our Hong Kong dollars or Chinese renminbi into U.S. dollars for other business purposes and the U.S. dollar appreciates against either currency, the U.S. dollar equivalent of the respective currency we convert would be reduced. To date, we have not engaged in any hedging transactions in connection with our international operations.

WE HAVE NEVER PAID CASH DIVIDENDS AND ARE NOT LIKELY TO DO SO IN THE FORESEEABLE FUTURE.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings for use in the operation and expansion of our business. We do not expect to pay any cash dividends in the foreseeable future but will review this policy as circumstances dictate.

RISKS ASSOCIATED WITH DOING BUSINESS IN GREATER CHINA

There are substantial risks associated with doing business in greater China, as set forth in the following risk factors.

OUR OPERATIONS AND ASSETS IN GREATER CHINA ARE SUBJECT TO SIGNIFICANT POLITICAL AND ECONOMIC UNCERTAINTIES.

Changes in laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

CURRENCY FLUCTUATIONS AND RESTRICTIONS ON CURRENCY EXCHANGE MAY ADVERSELY AFFECT OUR BUSINESS, INCLUDING LIMITING OUR ABILITY TO CONVERT CHINESE RENMINBI INTO FOREIGN CURRENCIES AND, IF CHINESE RENMINBI WERE TO DECLINE IN VALUE, REDUCING OUR REVENUE IN U.S. DOLLAR TERMS.

Our reporting currency is the U.S. dollar and our operations in China and Hong Kong use their respective local currencies as their functional currencies. The majority of our revenue derived and expenses incurred are in Chinese renminbi with a relatively small amount in Hong Kong dollars and U.S. dollars. We are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the renminbi depends to a large extent on Chinese government policies and China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of renminbi to U.S. dollars had generally been stable and the renminbi had appreciated slightly against the U.S. dollar. However, on July 21, 2005, the Chinese government changed its policy of pegging the value of Chinese renminbi to the U.S. dollar. Under the new policy, Chinese renminbi may fluctuate within a narrow and managed band against a basket of certain foreign currencies. As a result of this policy change, Chinese renminbi appreciated approximately 2.5% against the U.S. dollar in 2005. It is possible that the Chinese government could adopt a more flexible currency policy, which could result in more significant fluctuation of Chinese renminbi against the U.S. dollar. We can offer no assurance that Chinese renminbi will be stable against the U.S. dollar or any other foreign currency.

The income statements of our international operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currencies denominated transactions results in reduced revenue, operating expenses and net income for our international operations. Similarly, to the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenue, operating expenses and net income for our international operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a

translation gain or loss which is recorded as a component of other comprehensive income. In addition, we have certain assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future. The availability and effectiveness of any hedging transaction may be limited and we may not be able to successfully hedge our exchange rate risks.

Although Chinese governmental policies were introduced in 1996 to allow the convertibility of Chinese renminbi into foreign currency for current account items, conversion of Chinese renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange, or SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency. We cannot be sure that we will be able to obtain all required conversion approvals for our operations or that Chinese regulatory authorities will not impose greater restrictions on the convertibility of Chinese renminbi in the future. Because a significant amount of our future revenue may be in the form of Chinese renminbi, our inability to obtain the requisite approvals or any future restrictions on currency exchanges could limit our ability to utilize revenue generated in Chinese renminbi to fund our business activities outside China, or to repay foreign currency obligations, including our debt obligations, which would have a material adverse effect on our financial condition and results of operation.

WE ARE REQUIRED TO OBTAIN LICENSES TO EXPAND OUR BUSINESS INTO MAINLAND CHINA.

Our activities must be reviewed and approved by various national and local agencies of the Chinese government before they will issue business licenses to us. There can be no assurance that the current Chinese government, or successors, will continue to approve and renew our licenses. If we are unable to obtain licenses or renewals we will not be able to continue our business operations in mainland China, which would have a material adverse effect on our business, financial condition and results of operations.

WE MAY HAVE LIMITED LEGAL RECOURSE UNDER PRC LAW IF DISPUTES ARISE UNDER OUR CONTRACTS WITH THIRD PARTIES.

The Chinese government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. If our new business ventures are unsuccessful, or other adverse circumstances arise from these transactions, we face the risk that the parties to these ventures may seek ways to terminate the transactions, or, may hinder or prevent us from accessing important information regarding the financial and business operations of these acquired companies. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under PRC law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

WE MUST COMPLY WITH THE FOREIGN CORRUPT PRACTICES ACT.

We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in mainland China. If our competitors engage in these practices they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. Although we inform our personnel that such practices are illegal, we can not assure that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties.

PRC LAWS AND REGULATIONS RESTRICT FOREIGN INVESTMENT IN CHINA'S TELECOMMUNICATIONS SERVICES INDUSTRY AND SUBSTANTIAL UNCERTAINTIES EXIST WITH RESPECT TO OUR CONTRACTUAL AGREEMENTS WITH DIANXUN-DE, SUNROOM-DE, WANRONG-DE AND IMOBILE-DE TO UNCERTAINTIES REGARDING THE INTERPRETATION AND APPLICATION OF CURRENT OR FUTURE PRC LAWS AND REGULATIONS.

Since we are deemed to be foreign persons or foreign funded enterprises under PRC laws and cannot directly invest in telecommunications companies, we operate our IVR, call center and telecom value-added services business in China through operating companies or variable interest entities (VIEs) owned by PRC citizens. We control these companies and operate these businesses through contractual arrangements with the respective operating companies and their individual shareholders, but we have no equity control over these companies. Although we believe we are in compliance with current PRC regulations, we cannot be sure that the PRC government would view these operating arrangements to be in compliance with PRC licensing, registration or other regulatory requirements, with existing

policies or with requirements or policies that may be adopted in the future. In the opinion of our in-house PRC legal counsel, our current ownership structure, the contractual arrangements among our wholly owned subsidiaries and the operating company and their shareholders comply with all existing applicable PRC laws, rules and regulations. Because this structure has not been challenged or examined by PRC authorities, they have not commented on it and uncertainties exist as to whether the PRC government may interpret or apply the laws governing these arrangements in a way that is contrary to the opinion of our in-house PRC counsel. If we, or the operating companies, were found to be in violation of any existing PRC laws or regulations, the relevant regulatory authorities would have broad discretion to deal with such violation, including, but not limited to the following:

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- levying fines;
- confiscating income;
- revoking licenses;
- shutting down servers or blocking websites;
- requiring a restructure of ownership or operations; and/or
- requiring the discontinuance of wireless VAS and online advertising businesses.

We may also encounter difficulties in obtaining performance under or enforcement of related contracts. Any of these or similar actions could cause significant disruption to our business operations or render us unable to conduct a substantial portion of our business operations and may materially adversely affect our business, financial condition and results of operations.

OUR CONTRACTUAL AGREEMENTS WITH DIANXUN-DE, SUNROOM-DE, WANRONG-DE AND IMOBILE-DE MAY NOT BE AS EFFECTIVE IN PROVIDING OPERATIONAL CONTROL AS DIRECT OWNERSHIP OF THESE BUSINESSES.

We depend on operating companies in which we have little or no equity ownership interest and must rely on contractual agreements to control and operate these businesses. Our contractual agreements with each of the operating companies may not be as effective in providing and maintaining control over the operating companies and their business operations as direct ownership of these businesses. For example, we may not be able to take control of the operating company upon the occurrence of certain events, such as the imposition of statutory liens, judgments, court orders, death or capacity. Furthermore, if the operating companies fail to perform as required under those contractual agreements, we will have to rely on the PRC legal system to enforce those agreements and due to the uncertainties that exist under PRC Law about the structure of our acquisition, and there is no guarantee that we will be successful in an enforcement action. In addition, the PRC government may propose new laws or amend current laws that may be detrimental to our current contractual agreements with our operating companies, which may in turn have a material adverse effect on our business operations.

THE PRC GOVERNMENT MAY PREVENT US FROM ADVERTISING OR DISTRIBUTING CONTENT THAT IT BELIEVES IS INAPPROPRIATE

China has enacted regulations governing Internet access and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the Internet or through VAS that it believes to violate PRC law, including content that it believes is obscene, incites violence, endangers national security, is contrary to the national interest or is defamatory. In addition, we may need the permission of the Chinese government prior to publishing certain news items, such as news relating to national security. Furthermore, the Ministry of Public Security has the authority to cause any local Internet service provider to block any website maintained outside China at its sole discretion. If the PRC government were to take any action to limit or prohibit the distribution of information through our network or via our VAS, or to limit or regulate any current or future content or services available to users on our network, our business could be significantly harmed. We are also subject to potential liability for content on our website that is deemed inappropriate and for any unlawful actions of our subscribers and other users of our systems. Furthermore, we are required to delete content that clearly violates the laws of China and report content that we suspect may violate PRC law. It is difficult to determine the type of content that may result in liability for us, and if we are wrong, we may be prevented from operating our website.

POTENTIAL VIOLATION OF THE PRC REGULATION DUE TO INSUFFICIENT REGISTERED CAPITAL OF VIE

Through GuangZhou DianXun Company Limited (the “Dianxun-DE”), a Chinese variable interest entity (‘VIE’) controlled through business agreement, we are able to provide indirectly to China’s telecom operators, a wide variety of wireless internet services for mobile phones, such as SMS, Wireless Application Protocol, or WAP, which allows users to access information instantly via handheld wireless devices, and Java mobile applications. The registered capital of Dianxun-DE was approx. US\$1.25million, 90% of which was funded by borrowed assets at the inception of the company in order to obtain the operating license for the regulated VAS industry in which the VIE operates. The borrowed assets were returned to lenders subsequent to obtaining the necessary regulatory approval for the registered capital. On consolidation of this VIE for the year ended December 31, 2005, we reduced the registered capital of the VIE to \$125,000 to reflect the fair value of its net asset value at the time of acquisition. We will not be able to continue our business operations through this VIE if the regulatory authorities do not renew the licenses due to insufficient registered capital. For indicative purposes according to the PRC Telecommunication Rules, all telecommunication value added service providers can only carry on business if a Company maintains a minimum capital requirement of at least RMB10,000,000. The minimum capital requirement required in Shanghai, China, in order to get a provincial VAS license is Rmb1,000,000 (or US\$125,000).

RISKS RELATED TO OUR TECHNOLOGY AND EQUIPMENT

OUR INSURANCE MAY NOT BE SUFFICIENT TO RESTORE OUR CALL CENTER IF OPERATIONS ARE INTERRUPTED BY NATURAL DISASTER OR OTHER DESTRUCTION OF OUR FACILITIES OR EQUIPMENT.

Our operations depend on our ability to protect our call centers, data centers, CRM information, customer database, data warehouse, computer and telecommunications equipment and software systems against damage from fire, power loss, telecommunications interruption or failure, hacker attacks, natural disaster, epidemic, terrorism, act of war and other similar events. In the event we experience a temporary or permanent interruption at one or more of our call centers, through casualty, operating malfunction or otherwise, our business could be materially adversely affected and we may be required to pay contractual damages to some clients or allow some clients to terminate or renegotiate their contracts with us. While we maintain certain property and business interruption insurance, such insurance may not adequately compensate us for all losses that we may incur and may not be adequate to cover the costs of rebuilding these centers. If we are unable to restore our operations, our business activities would cease.

WE MUST RESPOND QUICKLY AND EFFECTIVELY TO NEW TECHNOLOGICAL DEVELOPMENTS.

Our VAS business is highly dependent on our computer and telecommunications equipment and software systems. Our failure to maintain the superiority of our technological capabilities or to respond effectively to technological changes could adversely affect our business, results of operations or financial condition. Our future success also depends on our ability to enhance existing software and systems and to respond to changing technological developments. If we are unable to successfully develop and bring to market new software and systems in a timely manner, our competitors technologies or services may render our products or services noncompetitive or obsolete.

RISKS RELATED TO OUR COMMON STOCK

EFFORTS TO COMPLY WITH RECENTLY ENACTED CHANGES IN SECURITIES LAWS AND REGULATIONS WILL INCREASE OUR COSTS AND REQUIRE ADDITIONAL MANAGEMENT RESOURCES. OUR FAILURE TO COMPLY COULD ADVERSELY AFFECT OUR STOCK PRICE.

We have rapidly grown by acquisition since 2004. We do not integrate the business operations of our target companies and therefore have separate administration and accounting personnel at each subsidiary location. We have sought to improve our existing disclosure controls and procedures and to that end, have substantially increased our accounting and administrative resources. Due to the number of new subsidiaries we have acquired, we have faced significant challenges with the timely reporting of information necessary to complete the financial statements to be filed with the Securities and Exchange Commission. Our failure to timely file our annual and quarterly reports may have an adverse affect on our stock price and may put our common stock in jeopardy of being delisted.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, public companies are required to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-K and the public accounting firm auditing a company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. This requirement will first apply to our annual report on Form 10-K for our fiscal year ending December 31, 2007. We have only recently begun to evaluate our internal controls over financial reporting. Given the status of our efforts, coupled with the fact that guidance from regulatory authorities in the area of internal controls continues to evolve, substantial uncertainty exists regarding our ability to comply by applicable deadlines. If we are unable to conclude that we have effective internal controls over financial reporting, or if our independent auditors are unable to provide us with an unqualified report as to the effectiveness of our internal controls over financial reporting as of December 31, 2007 and future year ends, as required by Section 404 of the Sarbanes-Oxley Act, we could experience delays or inaccuracies in our reporting of

financial information, or non-compliance with SEC reporting and other regulatory requirements. This could subject us to regulatory scrutiny and result in a loss of public confidence in our management, which could, among other things, adversely affect our stock price.

WE ISSUED \$8,000,000 IN CONVERTIBLE DEBENTURES DUE IN 2009, OR POSSIBLY EARLIER, WHICH WE MAY NOT BE ABLE TO REPAY IN CASH AND COULD RESULT IN DILUTION OF OUR BASIC EARNINGS PER SHARE.

In March 2006, we issued \$8 million in convertible debentures due March 2009. The debentures are convertible at any time into shares of our common stock at an initial fixed conversion price of \$10.00 per share, subject to adjustments for certain events. If any event of default occurs under the debentures or other related documents (including, but not limited to the payment of liquidated damages under the terms of the registration rights agreement, which as of the date of this prospectus, \$35,000 of such liquidated damages has been paid), the holders may elect to accelerate the payment of the outstanding principal amount of the debenture, plus accrued, but unpaid interest, liquidated damages or other amounts, which shall become immediately due and payable. Beginning January 1, 2007, we are obligated to redeem \$320,000 every month, plus accrued, but unpaid interest, liquidated damages and penalties. We may choose to pay such redemption amount in cash, or, subject to meeting certain conditions, we may pay all or a part of the redemption amount in shares of common stock. We may not have enough cash on hand or have the ability to access cash to pay the redemption amount, or upon acceleration of the debenture in the case of an event of default, or at maturity. In addition, the redemption of the debentures with our shares or the conversion of the debentures into shares of common stock could result in dilution of our basic earnings per share.

THE PRICE OF OUR STOCK HAS FLUCTUATED IN THE PAST AND MAY CONTINUE TO DO SO.

Our stock price has fluctuated dramatically. There is a significant risk that the market price of our common stock will decrease in the future in response to any of the following factors, some of which are beyond our control:

- variations in our quarterly operating results;
- announcements that our revenue or income are below analysts' expectations;
- general economic slowdowns;
- changes in market valuations of similar companies;
- sales of large blocks of our common stock;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments; and
- fluctuations in stock market prices and volumes, which are particularly common among highly volatile securities of companies with primarily international-based operations.

FUTURE SALES OF SHARES COULD HAVE AN ADVERSE EFFECT ON THE MARKET PRICE OF OUR COMMON STOCK

As of November 17, 2006, we had 14,008,497 shares of common stock issued, of which 11,671,836 shares were outstanding, which shares will be available to be sold in the public market in the near future, subject to, with respect to shares of common stock held by affiliates and shares issued between 12 and 24 months ago, the volume restrictions and/or manner of sale requirements of Rule 144 under the Securities Act. On February 4, 2005, a registration statement on Form SB-2 was declared effective with respect to 2,702,230 shares of our common stock. These shares are freely tradable without restriction or further registration, subject to the related prospectus delivery requirements. Sales by our current shareholders of a substantial number of shares could significantly reduce the market price of our common stock.

As of November 17, 2006, we had stock options outstanding to purchase an aggregate of 1,026,000 shares of common stock, of which 526,000 stock options were exercisable and warrants outstanding to purchase 1,007,138 shares of our common stock. To the extent that the options and warrants are exercised, they may be exercised at prices below the price of our shares of common stock on the public market, resulting in a significant number of shares entering the public market and the dilution of our common stock. Further, in March 2006, we completed a private placement of \$8,000,000 in convertible debentures. The debentures are convertible into shares of common stock at an initial fixed conversion price of \$10.00, subject to adjustments. In the event that any future financing should also be in the form of securities convertible into, or exchangeable for, equity securities, investors may experience additional dilution upon the conversion or exchange of such securities.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by certain selling stockholders. There will be no proceeds to us from the sale of shares of common stock in this offering. Assuming that all of the warrants held by selling stockholders are exercised for cash, we will realize proceeds of approximately \$10,606,647. We would use these funds for general corporate purposes.

SELLING STOCKHOLDERS

We are registering for resale shares of our common stock (i) held by the selling stockholders identified below and (ii) issuable to the selling security holders upon the conversion of outstanding debentures or exercise of outstanding warrants, or that may be issued in the form of interest payments on such debentures. We are registering the shares to permit the securityholders and their pledgees, donees, transferees and other successors-in-interest that receive their shares from a stockholder as a gift, partnership distribution or other non-sale related transfer after the date of this prospectus to resell the shares when and as they deem appropriate.

The following table set forth:

the name of the securityholders,

- the number and percent of shares of our common stock that the securityholders beneficially owned prior to the offering for resale of the shares under this prospectus,
- the number of shares of our common stock that may be offered for resale for the account of the securityholders under this prospectus, and
- the number and percent of shares of our common stock to be beneficially owned by the security holders after the offering of the resale shares (assuming all of the offered resale shares are sold by the securityholders).

The number of shares in the column “Maximum Number of Shares to be Sold” represents all of the shares that each security holder may offer under this prospectus. We do not know how long the security holders will hold the shares before selling them or how many shares they will sell, and we currently have no agreements, arrangements or understandings with any of the security holders regarding the sale of any of the resale shares. The shares offered by this prospectus may be offered from time to time by the securityholders listed below.

This table is prepared solely based on information supplied to us by the listed securityholders, any Schedules 13D or 13G and Forms 3 and 4, and other public documents they have filed with the SEC, and assumes the sale of all of the shares offered hereby. The applicable percentages of beneficial ownership are based on an aggregate of 11,671,836 shares of our common stock issued and outstanding on November 1, 2006 or subject to issuance upon exercise of the warrants, adjusted as may be required by rules promulgated by the SEC.

On March 13, 2006, we completed a private placement in which we sold \$8,000,000 in convertible debentures, convertible into shares of common stock at an initial fixed conversion price of \$10.000, subject to adjustment, and issued warrants to purchase up to an aggregate of 416,000 shares of common stock. Under the terms of the registration rights agreement, we are required to register 150% of the maximum number of shares of our common stock issuable upon (i) conversion of the convertible debentures, (ii) exercise of the warrants and (iii) the payment of interest assuming the debentures remain outstanding for three years. Accordingly we have registered for resale an additional 660,000 shares. The number of shares included below in the columns entitled “Shares Beneficially Owned Prior to the Offering” and the “Maximum Number of Shares to be Sold” do not include the 104,000 interest shares issuable if the Company elects to issue such shares in lieu of cash and the additional 660,000 shares as these share amounts are not beneficially owned by the selling stockholders who participated in the March 2006 private placement. The 104,000 interest shares and 660,000 additional shares if issued, will be allocated to the investors from the convertible debenture financing on a pro rata basis.

On June 8, 2005, we entered into a consulting agreement with CEOCast, Inc., our current investor relations and public relations firm. Pursuant to the terms of the agreement, part of the compensation to CEOCast consisted of the issuance of 26,000 shares of our common stock. We granted CEOCast piggyback registration rights with respect to those shares.

1,152,228 of the shares being offered by certain of the selling shareholders set forth below were previously registered on a Registration Statement of Form SB-2 (Registration No. 333-121792), that was declared effective on February 4, 2005.

No selling stockholder listed below has held any position nor had any material relationship with the us or our affiliates during the past three years, except that C.E. Unterberg, Towbin LLC acted as placement agent in the convertible debenture financing consummated in March 2006. C.E. Unterberg, Towbin Capital Partners I, L.P. is an entity

associated with C.E. Unterberg, Towbin LLC. CEOCast is our investor and public relations firm.

| Name of Selling Stockholder | Shares Beneficially Owned Prior to Offering | Maximum Number of Shares to be Sold | Number of Shares Beneficially Owned After Offering | Percentage Ownership After Offering |
|--|--|--|---|--|
| SF Capital Partners Ltd.(1) | 135,000 | 135,000 | 0 | 0 |
| Bluegrass Growth Fund LP(2) | 11,667 | 11,667 | 0 | 0 |
| Bluegrass Growth Fund Ltd.(3) | 11,667 | 11,667 | 0 | 0 |
| Omicron Master Trust(4) | 33,515 | 33,515 | 0 | 0 |
| Iroquois Capital LP(5) | 566,667 | 566,667 | 0 | 0 |
| Smithfield Fiduciary LLC(6) | 23,333 | 23,333 | 0 | 0 |
| Portside Growth and Opportunity Fund(7) | 23,333 | 23,333 | 0 | 0 |
| Satellite Strategic Finance Associates, LLC(8) | 105,000 | 105,000 | 0 | 0 |
| CEOCast, Inc. | 20,000 | 20,000 | 0 | 0 |
| Sino Strategic Investment Limited (9) | 385,848 | 385,848 | 0 | 0 |
| Sunshine Ocean Investment Limited (10) | 192,924 | 192,924 | 0 | 0 |
| C.E. Unterberg, Towbin Capital Partners I, L.P. (11) | 75,000 | 75,000 | 0 | 0 |
| Alpha Capital AG (12) | 175,720 | 175,720 | 0 | 0 |
| Whalehaven Capital Fund Limited (13) | 150,000 | 150,000 | 0 | 0 |
| Basso Private Opportunities Holding Fund Ltd. (14) | 37,500 | 37,500 | 0 | 0 |
| Basso Fund Ltd. (15) | 30,000 | 30,000 | 0 | 0 |
| Basso Multi-Strategy Holding Fund Ltd. (16) | 82,500 | 82,500 | 0 | 0 |
| DKR SoundShore Oasis Holding Fund LTd.(17) | 225,000 | 225,000 | 0 | 0 |
| C.E. Unterberg, Towbin LLC (18) | 16,000 | 16,000 | 0 | 0 |
| Whalehaven Fund Limited (19) | 5,144 | 5,144 | 0 | 0 |
| Rockmore Investment Master Fund Ltd. (20) | 15,538 | 15,538 | 0 | 0 |
| Excalibur Limited Partnership (21) | 15,432 | 15,432 | 0 | 0 |
| Vertical Ventures LLC (22) | 25,720 | 25,720 | 0 | 0 |
| Stonestreet LP (23) | 25,720 | 25,720 | 0 | 0 |

(1) Includes 35,000 shares of common stock issuable upon exercise of a warrant.

(2) Includes 11,667 shares of common stock issuable upon exercise of a warrant. Bluegrass Growth Fund Partners is the managing partner of Bluegrass Growth Fund LP. By virtue of such relationship, Bluegrass Growth Fund Partners may be deemed to have voting and dispositive power over the shares owned by Bluegrass Growth Fund LP. Bluegrass Growth Fund Partners disclaims beneficial ownership of such shares. Mr. Brian Shatz has delegated authority from the partners of Bluegrass Growth Fund Partners with respect to the shares of common stock owned by Bluegrass Growth Fund LP. As such, Mr. Shatz is deemed to have voting and dispositive power over the shares of common stock owned by Bluegrass Growth Fund LP. Mr. Shatz disclaims beneficial ownership of such shares

of our common stock and has no legal right to maintain such delegated authority..

- (3) Includes 11,667 shares of common stock issuable upon exercise of a warrant. Mr. Brian Shatz is a director of Bluegrass Growth Fund, Ltd. and has delegated authority from the shareholders of Bluegrass Growth Fund, Ltd. with respect to the shares of common stock owned by Bluegrass Growth Fund, Ltd. As such, Mr. Shatz is deemed to have voting and dispositive power over the shares of common stock owned by Bluegrass Growth Fund, Ltd. Mr. Shatz disclaims beneficial ownership of such shares of our common stock and has no legal right to maintain such delegated authority.
- (4) Includes 33,515 shares of common stock issuable upon exercise of a warrant. Omicron Capital, L.P., a Delaware limited partnership (“Omicron Capital”), serves as investment manager to Omicron Master Trust, a trust formed under the laws of Bermuda (“Omicron”), Omicron Capital, Inc., a Delaware corporation (“OCI”), serves as general partner of Omicron Capital, and Winchester Global Trust Company Limited (“Winchester”) serves as the trustee of Omicron. By reason of such relationships, Omicron Capital and OCI may be deemed to share dispositive power over the shares of our common stock owned by Omicron, and Winchester may be deemed to share voting and dispositive power over the shares of our common stock owned by Omicron. Omicron Capital, OCI and Winchester disclaim beneficial ownership of such shares of our common stock. As of the date of this prospectus, Mr. Olivier H. Morali, an officer of OCI, and Mr. Bruce T. Bernstein, a consultant to OCI, have delegated authority from the board of directors of OCI regarding the portfolio management decisions with respect to the shares of our common stock owned by Omicron. By reason of such delegated authority, Messrs. Morali and Bernstein may be deemed to share dispositive power over the shares of our common stock owned by Omicron. Messrs. Morali and Bernstein disclaim beneficial ownership of such shares of our common stock and nether of such persons has any legal right to maintain such delegated authority. No other person has sole or shared voting or dispositive power with respect to the shares of our common stock being offered by Omicron, as those terms are used for purposes under Regulation 13D-G of the Securities exchange Act of 1934, as amended. Omicron and Winchester re not “affiliates” of one another, as that term is used for purposes of the Exchange Act or of any other person named in this prospectus as a selling stockholder. No person or “group” (as that term is used in Section 13(d) of the Exchange Act or the SEC’s Regulation 13D-G) controls omicron and Winchester.
- (5) Includes (i) 300,000 shares of common stock issuable upon conversion of the convertible debenture; (ii) 266,667 shares of common stock issuable upon exercise of warrants.
- (6) Includes 23,333 shares of common stock issuable upon exercise of a warrant. . Highbridge Capital Management, LLC is the trading manager of Smithfield Fiduciary LLC and has voting control and investment discretion over the securities held by Smithfield Fiduciary LLC. Glenn Dubin and Henry Swieca control Highbridge Capital Management, LLC and have voting control and investment discretion over the securties held by Smithfield Fiduciary LLC. Each of Highbridge Capital Management, LLC, Glenn Dubin and Henry Swieca disclaims beneficial ownership of the securities held by Smithfield Fiduciary LLC.

- (7) Includes 23,333 shares of common stock issuable upon exercise of a warrant. Ramius Capital Group, L.L.C (“Ramius Capital”) is the investment adviser of Portside Growth and Opportunity Fund (“Portside”) and consequently has voting control and investment discretion over securities held by Portside. Ramius Capital disclaims beneficial ownership of the shares held by Portside. Peter A. Cohen, Morgan B. Stark, Thomas W. Strauss and Jeffrey M. Solomon are the sole managing members of C4S & Co., L.L.C., the sole managing member of Ramius Capital. As a result, Messrs. Cohen, Stark, Strauus and Solomon may be considered beneficial owners of any shares deemed to be beneficially owned by Ramius Capital. Messrs. Cohen, Stark, Strauss and Solomon disclaim beneficial ownership of these shares.
- (8) Includes 105,000 shares of common stock issuable upon exercise of a warrant.
- (9) Includes 64,308 shares of common stock issuable upon exercise of a warrant.
- (10) Includes 32,154 shares of common stock issuable upon exercise of a warrant.
- (11) Includes 50,000 shares of common stock issuable upon conversion of the convertible debenture and 25,000 shares of common stock issuable upon exercise of a warrant.
- (12) Includes 100,000 shares of common stock issuable upon conversion of the convertible debenture and 75,720 shares of common stock issuable upon exercise of a warrant.
- (13) Includes 100,000 shares of common stock issuable upon conversion of the convertible debenture and 50,000 shares of common stock issuable upon exercise of a warrant.
- (14) Includes 25,000 shares of common stock issuable upon conversion of the convertible debenture and 12,500 shares of common stock issuable upon exercise of a warrant.
- (15) Includes 20,000 shares of common stock issuable upon conversion of the convertible debenture and 10,000 shares of common stock issuable upon exercise of a warrant.
- (16) Includes 55,000 shares of common stock issuable upon conversion of the convertible debenture and 27,500 shares of common stock issuable upon exercise of a warrant.
- (17) Includes 150,000 shares of common stock issuable upon conversion of the convertible debenture and 75,000 shares of common stock issuable upon exercise of a warrant. The investment manager of DKR SoundShore Oasis Holding Fund Ltd. (the “Fund”) is DKR Oasis Management Company LP (the “Investment Manager”). The Investment Manager has the authority to do any and all acts on behalf of the Fund, including voting any shares held by the Fund. Mr. Seth Fischer is the managing partner of Oasis Management Holdings LLC, one of the general partners of the Investment Manager. Mr. Fischer has ultimate responsibility for trading with respect to the Fund. Mr. Fischer disclaims beneficial ownership of the shares.
- (18) Includes shares of common stock issuable upon exercise of warrants.
- (19) Includes shares of common stock issuable upon exercise of warrants.
- (20) Includes shares of common stock issuable upon exercise of warrants.
- (21) Includes shares of common stock issuable upon exercise of warrants.

- (22) Includes shares of common stock issuable upon exercise of warrants.
- (23) Includes shares of common stock issuable upon exercise of warrants.

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