

PACIFIC ALLIANCE CORP /UT/  
Form 10-Q/A  
August 18, 2009

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

**FORM 10-Q/A**  
**AMENDMENT NO. 1**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009.

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION FROM \_\_\_\_\_ TO \_\_\_\_\_.

Commission file number: 000-51777

**PACIFIC ALLIANCE CORPORATION**

(Exact name of registrant as specified in its charter)

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Delaware	87-044584-9
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification No.)

1661 Lakeview Circle, Ogden, UT 84403

(Address of principal executive offices)

Registrant's telephone no., including area code: (801) 399-3632

N/A

Former name, former address, and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

At May 15, 2009, the Company had 37,382,000 outstanding shares of common stock, \$.001 par value.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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**TABLE OF CONTENTS**

**PART I - FINANCIAL INFORMATION**

Item 1.	Financial Statements	<u>Page</u>
	Balance Sheets	4
	Statements of Operations	5
	Statements of Cash Flows	6
	Notes to Interim Unaudited Financial Statements	7- 9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	17
Item 4T.	Controls and Procedures	17

**PART II - OTHER INFORMATION**

Item 1.	Legal Proceedings	17
Item 1A.	Risk Factors	17
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	18
Item 3.	Defaults Upon Senior Securities	18
Item 4.	Submission of Matters to a Vote of Security Holders	18
Item 5.	Other Information	18
Item 6.	Exhibits	18

## **PART I - FINANCIAL INFORMATION**

### **ITEM 1. FINANCIAL STATEMENTS**

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a complete presentation of our financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Our unaudited balance sheet at March 31, 2009 and our audited balance sheet at December 31, 2008; the related unaudited statements of operations for the three month periods ended March 31, 2009 and 2008 and from inception of the development stage (December 21, 1995 through March 31, 2009); and the related unaudited statement of cash flows for the three month periods ended March 31, 2009 and 2008 and from inception of the development stage (December 21, 1995 through March 31, 2009), are attached hereto.

**PACIFIC ALLIANCE CORPORATION****(A DEVELOPMENT STAGE COMPANY)****BALANCE SHEETS**

	<b>March 31, 2009 (Restated)</b>	As of December 31, 2008
<b>ASSETS</b>		
Current Assets		
Cash	<b>\$19,439</b>	\$143
<b>TOTAL ASSETS</b>	<b>\$19,439</b>	\$143
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities		
Accrued Interest	<b>\$81,396</b>	\$77,921
Other Accrued Expenses	<b>79,039</b>	80,028
Notes payable	<b>137,100</b>	137,100
Convertible Notes payable	<b>131,000</b>	-
Advances from Officer	<b>262,524</b>	315,752
Tax Liabilities	<b>355,351</b>	351,707
Notes payable to Related Parties	<b>130,065</b>	153,293
Derivative Liability	<b>96,000</b>	-
Total current liabilities	<b>1,272,475</b>	1,115,801
Stockholders' Deficit		
Common Stock, par value \$0.001, authorized 100,000,000 shares; and 37,382,000 and 37,250,450 shares issued and outstanding	<b>37,382</b>	37,250
Preferred shares, par value \$0.001, authorized 5,000,000 shares; none issued	-	-
Paid-in Capital	<b>3,461,509</b>	3,448,486
Accumulated deficit prior to the developmental stage	<b>(2,632,447)</b>	(2,632,447)

Accumulated deficit during the developmental stage	(2,119,480)	(1,968,947)
Total Stockholders Deficit	(1,253,036)	(1,115,658)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$19,439</b>	<b>\$143</b>

4

See Notes to Interim Unaudited Financial Statements

**PACIFIC ALLIANCE CORPORATION****(A DEVELOPMENT STAGE COMPANY)****STATEMENTS OF OPERATIONS (Unaudited)**

	<b>For the three months ended</b>	<b>Stage,</b>	<b>From Inception of</b>
	<b>March 31,</b>		<b>the Developmental</b>
	<b>2009</b>	<b>2008</b>	<b>December 21, 1995</b>
	<b>(Restated)</b>		<b>Through</b>
			<b>March 31, 2009</b>
			<b>(Restated)</b>
Operating Expenses:			
Selling, General and Administrative Expenses	<b>\$35,206</b>	\$34,068	\$1,490,368
Tax Penalty and Interest Expense	<b>3,644</b>	3,644	166,877
Loss on Investment	-	-	6,844
Total Operating Expenses	<b>38,850</b>	37,712	1,664,089
Other Income (Expenses):			
Interest Expense	<b>(366,392)</b>	(12,949)	(779,175)
Change in Derivative Liability	<b>254,709</b>	-	254,709
Total Other Income (Expenses)	<b>(111,683)</b>	(12,949)	(524,466)
Net Loss before Extraordinary Item	<b>(150,533)</b>	(50,661)	(2,188,555)
Extraordinary Item, Gain on Forgiveness of Tax debt	-	-	69,075
Net Loss	<b>\$(150,533)</b>	\$(50,661)	\$(2,119,480)
Net Loss per share, Basic and Diluted	<b>NIL</b>	NIL	
Weighted Average Number of Shares	<b>37,294,300</b>	36,717,500	



5

See Notes to Interim Unaudited Financial Statements

**PACIFIC ALLIANCE CORPORATION****(A DEVELOPMENT STAGE COMPANY)****STATEMENTS OF CASH FLOWS (Unaudited)**

	<b>For the three months ended</b>		From Inception of
	<b>March 31,</b>		the Developmental
	<b>2009</b>	2008	Stage,
	<b>(Restated)</b>		December 21, 1995
			Through
			March 31, 2009
			<b>(Restated)</b>
<b>Cash Flow from Operating Activities:</b>			
Net Loss	<b>\$(150,533)</b>	\$(50,661)	\$(2,023,480)
Adjustments to Reconcile Net Loss to Net Cash Used in Operations:			
Loss on investments	-	-	6,844
Gain on forgiveness on tax debt	-	-	(69,075)
Stock issued for services	<b>13,155</b>	16,650	663,960
Non-cash interest expense	<b>350,710</b>	-	350,710
Change in derivative liability	<b>(254,709)</b>	-	(254,709)
(Increase) Decrease in:			
Accounts receivable	-	-	95,841
Increase (Decrease) in:			
Accrued expenses	<b>2,486</b>	5,447	317,496
Tax liabilities	<b>3,644</b>	3,644	(20,486)
<b>Net Cash Used in Operating Activities</b>	<b>(35,247)</b>	(24,920)	(1,028,900)
<b>Cash Flow from Investing Activities</b>			
Purchase of investments	-	-	(30,180)
Proceeds from sale of investments	-	-	23,336
<b>Net Cash Used In Investing Activities</b>	-	-	(6,844)
<b>Cash Flow from Financing Activities:</b>			
Bank overdraft	-	-	(2,587)
Proceeds from notes payable	-	-	223,586
Payments of note payable	-	-	(51,277)

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Proceeds from convertible notes payable	<b>131,000</b>		131,000
Net Proceeds from notes payable to related parties	-	-	128,084
Payments to notes payable to related parties	<b>(23,228)</b>	-	(23,228)
Advance from officer	<b>14,100</b>	34,900	1,058,256
Repayment of advances from officer	<b>(67,328)</b>	(8,809)	(693,500)
Proceeds from issuance of common stock	-	-	25,000
Proceeds from common stock subscription	-	-	259,849
<b>Net Cash Flow Provided by Financing Activities</b>	<b>54,544</b>	26,091	1,055,183
<b>Net Increase in Cash</b>	<b>19,296</b>	1,171	19,439
Cash Balance at Beginning of Period	<b>143</b>	29	-
<b>Cash Balance at End of Period</b>	<b>\$19,439</b>	\$1,200	\$19,439
Supplemental Disclosures of Cash Flow Information			
Interest paid	<b>\$12,208</b>	\$6,191	

6

See Notes to Interim Unaudited Financial Statements

**PACIFIC ALLIANCE CORPORATION**

**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Going Concern Pacific Alliance Corporation (the Company) is a development stage Company and attempts to locate a new business (operating company), and offer itself as a merger vehicle for a company that may desire to go public through a merger rather than through its own public stock offering.

Pacific Alliance Corporation, whose name was changed from Pacific Syndication, Inc. in 1997, was originally incorporated in December 1991 under the laws of the State of Delaware. It also became a California corporation in 1991. Pacific Syndication, Inc. was engaged in the business of videotape duplication, standard conversion and delivery of television programming. In 1994, Pacific Syndication, Inc. merged with Kaiser Research, Inc.

The Company filed a petition for Chapter 11 under the Bankruptcy Code in June 1995. The debtor in possession kept operating until December 21, 1995, when all assets, except cash and accounts receivable, were sold to a third party, Starcom. The purchaser assumed all post-petition liabilities and all obligations collateralized by the assets acquired.

In 1997, a reorganization plan was approved by the Bankruptcy Court, and the remaining creditors of all liabilities subject to compromise, excluding tax claims, were issued 1,458,005 shares of the Company's common stock in March 1998, which corresponds to one share for every dollar of indebtedness. Each share of common stock issued was also accompanied by an A warrant and a B warrant. The IRS portion of tax liabilities was payable in cash by quarterly installments (see note 2). Repayment of other taxes is still being negotiated.

Reclassification and Restatement: The March 31, 2009 financial statements have been restated to correct the accounting for the convertible notes payable and related expenses. The result is to decrease the notes payable, and increase convertible notes payable, interest expense and other income on the restated financial statements presentation. The impact on the financial statements at March 31, 2009 is summarized as follows:

As reported

Restated

Notes Payable	\$	268,100	\$	137,100
Convertible Notes Payable	\$	-	\$	131,000
Derivative Liability	\$	-	\$	96,000
Total Current Liabilities	\$	1,176,475	\$	1,272,475
Accumulated Deficit During the Developmental Stage	\$	(2,023,480)	\$	(2,119,480)
Total Stockholders' Deficit	\$	(1,157,036)	\$	(1,253,036)
Other Income (Expenses):				
Interest Expense	\$	(15,683)	\$	(366,392)
Change in Derivative Liability	\$	-	\$	254,709
Total Other Income (Expenses)	\$	(15,683)	\$	(111,683)
Net Income (Loss)	\$	(54,533)	\$	(150,533)
Net Loss per Share		NIL		NIL

The accompanying financial statements have been prepared on a going concern basis, which contemplated the March 31, 2009 financial statements, the Company did not generate any revenue, and has a net capital deficiency. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time. For the first three months ended March 31, 2009, the Company funded its disbursements using loans from an officer and other notes.

**PACIFIC ALLIANCE CORPORATION**

**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Presentation of Interim Information The financial information at March 31, 2009 and for the three months ended March 31, 2009 and 2008 are unaudited, but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information, and with the instructions to Form 10-Q. Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information refer to the Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2008.

The balance sheet as of December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

The results for the three months ended March 31, 2009 may not be indicative of results for the year ending December 31, 2009 or any future periods.

Use of estimates The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income (Loss) Per Common Share The Company accounts for income (loss) per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share. SFAS No. 128 requires that presentation of basic and diluted earnings per share for entities with complex capital structures. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common stockholders by the weighted average number of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of an entity. Diluted net loss per common share does not differ from basic net loss per common share as the Company lacks of dilutive items.

Convertible Notes Payable and Derivative Liabilities The Company accounts for convertible notes payable in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "*Accounting for Derivative Instruments and Hedging Activities*." This standard requires the conversion feature of convertible debt be separated from the host contract and presented as a derivative instrument if certain conditions are met. Emerging Issue Task Force (EITF) 00-19, "*Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock*" and EITF 05-2, "*The Meaning of "Conventional Convertible Debt Instrument" in Issue No. 00-19*" were also analyzed to determine whether the debt instrument is to be considered a conventional convertible debt instrument and classified in stockholders' equity. The convertible notes payable were evaluated and determined not conventional convertible and, therefore, because of certain terms and provisions including liquidating damages under the associated registration rights agreement the embedded conversion option was bifurcated and has been accounted for as a derivative liability instrument. The accounting guidance also requires that the conversion feature be recorded at fair value for each reporting period with changes in fair value recorded in the statements of operations.

A Black-Scholes valuation calculation was applied to the conversion features at issuance dates and report dates. The issuance date valuations were recorded as a interest expense reflected on the statements of operations. The reporting date valuations were used to record the fair value of these instruments at the end of the reporting period with any difference from prior period calculations reflected in the statement of operations.

New Accounting Pronouncements: Pacific Alliance Corporation does not believe newly issued accounting pronouncements will have any material impact on its financial statements.

## **NOTE 2 TAX LIABILITIES**

The Company owes back taxes to the IRS, California Franchise Tax Board, California State Board of Equalization, and County of Los Angeles, before the bankruptcy. The Company is attempting to negotiate settlements and the final amount may differ from the amount recorded on the balance sheets.

The IRS portion of tax liabilities was payable in quarterly installments of \$ 11,602, and the final payment was due in January 2002. However, no payments have been made since April 2000. As of March 31, 2009, and December 31, 2008 the Company owes \$296,517 and \$293,448 to the IRS, respectively. The taxes owed to the IRS are delinquent and accruing interest at 9% per annum.

As of March 31, 2009 and December 31, 2008, the Company owes \$5,455 and \$5,455 to California Franchise Tax Board, respectively. No payments have been made and the taxes owed to California Franchise Tax Board are delinquent. No interest is being accrued; however, a protection lien is being filed.

As of March 31, 2009 and December 31, 2008, the Company owes \$45,509 and \$45,019 to California State Board of Equalization, respectively. No payments have been made and the taxes owed to California State Board of Equalization are delinquent and accruing an interest at 9% per annum.

As of March 31, 2009 and December 31, 2008, the Company owes \$7,870 and \$7,785 to the County of Los Angeles, respectively. No payments have been made and the taxes owed to the County of Los Angeles are delinquent and accruing an interest at 9% per annum.

### **NOTE 3 SHORT TERM NOTE PAYABLE**

The notes payable bear interest at 10% per annum and are due on demand. As of March 31, 2009 and December 31, 2008, the balance was \$137,100.

### **NOTE 4 NOTES PAYABLE TO RELATED PARTIES**

Notes payable to minority shareholders amounted to \$130,065 and \$153,293 at March 31, 2009 and December 31, 2008, respectively. These notes bear interest at 10% to 12%, and are due on demand.

### **NOTE 5 CONVERTIBLE NOTES PAYABLE**

During the quarter ended March 31, 2009, the Company issued outstanding convertible notes bearing an annual interest rate of 8% and are convertible within six months from the date of each note. The notes contain a convertible feature allowing the holder to convert all or a portion of the outstanding balance into the Company's common stock.



Due to the moving conversion price of the Company's convertible debt, it has bifurcated the conversion feature from the host debt instrument in accordance with EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, accounted for these conversion features as derivative instruments, and valued these conversion features using the Black-Scholes valuation model. Based on the calculations per the valuation model the Company incurred a charge to interest expenses of \$350,710 at the time of issuance. The Company recorded other income of \$254,709 because of the change in derivative liability at March 31, 2009 due to a decrease in the Company's stock price at March 31, 2009.

As of March 31, 2009 the amount of the convertible notes outstanding totaled \$131,000, all of which is short-term convertible debt.

**PACIFIC ALLIANCE CORPORATION****(A DEVELOPMENT STAGE COMPANY)****NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS****NOTE 6 COMMON STOCK**

During the first three months of 2009, the Company issued 131,550 shares of common stock for management services, pursuant to the provisions of the Modified Plan of Reorganization approved by the U.S. Bankruptcy Court in 1997. The stocks were valued \$0.10 per share, or \$13,155 of total.

**NOTE 7 NET LOSS PER SHARE**

The following table sets forth the computation of basic and diluted net loss per share:

	Three Months Ended	
	March 31, 2009 (Restated)	March 31, 2008
Numerator:		
Net Loss	\$(150,533)	\$(50,661)
Denominator:		
Weighted Average Number of Shares	37,294,300	36,717,500
Net loss per share-Basic and Diluted	NIL	NIL

**NOTE 8 RELATED PARTY TRANSACTIONS**

An officer of the Company advanced \$14,100 to the Company during the three months ended March 31, 2009. The Company repaid the officer \$67,328 during the three months ended March 31, 2009. These advances bear interest at 10% and have no maturity date. The balance of advances was \$262,524 and \$315,752 at March 31, 2009 and December 31, 2008, respectively.

During the quarter ended June 30, 2002, the Company passed a resolution to pay rent, office and secretarial services to a stockholder of the Company at a rate of \$500 per month. These charges were retroactive to July 1997, subsequent to the date of approval of the reorganization plan by the Bankruptcy court. As such, \$1,500 was recorded as expense during the three months period ended March 31, 2009 and 2008.

In accordance with the modified joint plan or reorganization, management is compensated on an hourly basis at a rate of \$75 per hour. Such compensation is made through issuance of common stock. Management compensation amounted to \$13,155 and \$16,650 for the three months ended March 31, 2009 and 2008, respectively (see note 6).

**NOTE 9 OTHER ACCRUED EXPENSES**

Accrued expenses consist of:

	March 31, 2009	December 31, 2008
Accrued Professional Fees	\$59,465	\$60,455
Accrued Expenses	19,574	19,573
Total	\$79,039	\$80,028

**NOTE 10 SUBSEQUENT EVENT**

On June 26, 2009, the entered into a share exchange agreement with Superior Filtration Products, LLC, a Florida company ( Superior ).

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **General**

Pacific Alliance Corporation (the Company) is a Delaware corporation which is currently inactive. The Company was previously engaged in the business of distributing television programming. On June 23, 1995, the Company filed for protection under Chapter 11 of the United States Bankruptcy Code (Case No. BK. No. SV 95-14737 KL). On May 28, 1997 (the Confirmation Date), the United States Bankruptcy Court for the Central District of California Confirmed the Company's Modified Plan of Reorganization (the Plan) and First Amended Disclosure Statement (the Disclosure Statement). The Effective Date of the Plan was June 8, 1997. On February 23, 2000, United States Bankruptcy Judge entered a Final Decree Order Pursuant to Bankruptcy Code Section 350, and thereby issued a final decree closing the bankruptcy case. The claim by the Internal Revenue Service was not discharged by the Final Decree Order.

### **History**

The Company was organized on April 22, 1986 under the laws of the State of Utah under the name of Kaiser Research, Inc. On December 2, 1994, the Company changed its domicile from the State of Utah to the State of Delaware through a reincorporation merger. In order to effect the reincorporation merger, the Company formed a wholly-owned subsidiary under Delaware law under the name of PACSYND, Inc. After the change of the Company's domicile, it acquired a privately held corporation (Private PSI) in a merger transaction, and in connection therewith, the Company's name was changed to Pacific Syndication, Inc.

After the acquisition of Private PSI in December 1994, and prior to its filing of a Petition under Chapter 11, the Company was engaged in the business of transmitting television programming to television stations and others via satellite or land deliveries on behalf of production companies, syndicators and other distributors of television programming. Although the Private PSI was not the survivor of the Merger, and did not exist after the Merger, pursuant to the accounting requirements of the Securities and Exchange Commission the Merger was treated as a reverse merger and, solely for accounting purposes, Private PSI was deemed to be the survivor.

Private PSI was formed under the laws of the State of Delaware in November 1991. Private PSI was formed to engage in the business of providing a variety of television industry related services to its clients. Such services included, but were not limited to, video tape duplication, standards conversion and delivery of television programming by way of conventional carriers (such as UPS, Airborne and Federal Express) and by satellite or fiber optic

transmission.

Private PSI provided its clients (primarily television producers, programmers and syndicators) with several related but different services, including distribution of syndicated programming to television stations, program mastering and standards conversion, infomercial customization and delivery, master tape and film storage, library distribution services and video integration and delivery services. Private PSI developed its own tape tracking and vault library management system and a system for infomercial customization and voice-over integration.

From its inception, Private PSI was undercapitalized. It funded its initial operations through the factoring of its accounts receivable. The Company was unable to commence operations in the television programming services business and ultimately, substantially all of its assets were sold and it discontinued its operations.

## **Chapter 11 Plan of Reorganization**

On June 23, 1995, the Company filed a Petition under Chapter 11 of the U.S. Bankruptcy Code. As of December 1995, the Company had sold most of its assets, reduced its debt and terminated its operations. By that date, there was no trading market in the Company's securities. In 1996, Troika Capital, Inc. ( Troika ), a Utah corporation, agreed to assist the Company in developing a Plan of Reorganization which would provide the Company, its shareholders and creditors with at least a possibility of recouping all or some of their investment in the Company or the debts owed to them by the Company. Troika is a privately-owned Utah corporation which has been involved in various company formations, mergers and financings.

Mark A. Scharmann, the President of Troika, and now the President of the Company, and his affiliates, were shareholders of the Company and creditors of the Company at the time the Company commenced its bankruptcy proceeding. Mr. Scharmann was a founder of the Company in 1986 and was an original shareholder of the Company. At the time the Company acquired Private PSI, he resigned as an officer and director of the Company but remained a shareholder and later became a creditor of the Company. Many of the investors in the Company are friends and acquaintances of Mr. Scharmann. The Company believed that if it were to liquidate, there would be a total loss to creditors and shareholders. Because of his own equity and debt investment in the Company, and his relationship with other shareholders and creditors of the Company, Mr. Scharmann agreed, through Troika, to develop a business plan for the Company and to attempt to assist the Company in carrying out such plan.

The Plan of Reorganization developed for the Company by Troika was essentially as follows:

1. Eliminate all non-tax liabilities of the Company through the conversion of debt into equity.

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2. Replace the current officers and directors of the Company with new management. The new management includes the following: Mark Scharmann, Dan Price and David Knudson.
3. File all required Securities and Exchange Commission reports which may be necessary to bring the Debtor current in its filing requirements under Section 15(d) of the 1934 Act. File all SEC reports which become due in the future.
4. File any tax returns which are in arrears and file all required tax returns and reports which become due in the future.
5. Use existing cash of the Company to pay quarterly tax payments and for working capital.
6. Prepare and bring current, the financial statements of the Company
7. Attempt to raise additional cash to be used to fund quarterly tax payments and for working capital.
8. Locate a private-company which is seeking to become a public company by merging with the Company.
9. Assist the Company in completing any merger which is located and which the Board of Directors deems appropriate.
10. Assist the post-merged company with shareholder relations, financial public relations and with attempts to interest a broker-dealer in developing a public market for the Company's common stock so that the Company's shareholders (including creditors whose debt was converted into shares of the Company's common stock) may ultimately have a opportunity to liquidate their shares for value in market or in privately negotiated transactions.

The Plan and Disclosure Statement was confirmed by the Bankruptcy Court on May 28, 1997. The Effective Date of the Plan was June 8, 1997.

### **Post Confirmation Date Activities**

Since the Confirmation of the Plan of Reorganization the following have occurred:

1. Pre-Confirmation Date non-tax debt in the amount of approximately \$1,458,000 was converted into 1,458,005 shares of the Company common stock.
2. The Company has audited financial statements for the years ended December 31, 1995 through 2008.
3. Tax liabilities to the Internal Revenue Service are approximately \$293,448 as of December 31, 2008.
4. The Company effected a 1-for-6 reverse split of its issued an outstanding common stock in order to establish a more desirable capital structure for potential merger partners.
5. The Company changed its name to Pacific Alliance Corporation.
6. The Company's common stock is now quoted on the OTC Bulletin Board under the trading symbol PALC.
7. The Company filed an application for approval of secondary trading in its common stock with the Division of Securities of the State of Utah. An Order Granting such application was issued by the Utah Division of Securities which was effective through March 31, 1999.
8. The Company has prepared and filed periodic reports through the period ending March 31, 2009.
9. Effective February 22, 2000 - the Bankruptcy Court entered an Order of Final Decree closing the Bankruptcy Case.

### ***Forward Outlook and Risks***

This periodic report contains and incorporates by reference certain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act with respect to results of our operations and businesses. All statements, other than statements of historical facts, included in this periodic report, including those regarding market trends, our financial position, business strategy, projected costs, and plans and objectives of management for future operations, are forward-looking statements. In general, such statements are identified by the use of forward-looking words or phrases including, but not limited to, intended, will, should, may, expects, anticipates, and anticipated or the negative thereof or variations thereon or similar terminology. These forward-looking statements are based on our current expectations. Although we believe that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Because forward-looking statements involve risks and uncertainties, our actual results could differ materially. Important factors that could cause actual results to differ materially from our expectations are disclosed hereunder and elsewhere in this Form 10-Q. These forward-looking statements represent our judgment as of the date of this Form 10-Q. All subsequent written and oral forward-looking statements attributable to Pacific Alliance are expressly qualified in their entirety by the Cautionary Statements. we disclaim, however, any intent or obligation to update our forward-looking statements.

### *Plan of Operation*

Our current plan of operation is to acquire another operating company. It is likely that any acquisition will be a reverse merger acquisition whereby we acquire a larger company by issuing shares of our common stock to the shareholders of the larger company. Although we would be the surviving or parent company from a corporate law standpoint, the shareholders of the larger company would be our controlling shareholders and the larger company would be treated as the survivor or parent company from an accounting point of view. It can be expected that any company which may desire to be acquired by us will do so as method of potentially becoming a public company more quickly and less expensively than if such company undertook its own public offering. Even if we are able to acquire another company, there can be no assurance that we will ever operate at a profit.

**Reclassification and Restatement:** The March 31, 2009 financial statements have been restated to correct the accounting for certain convertible notes payable and related expenses. The result is to decrease the notes payable, and increase convertible notes payable, interest expense and other income on the restated financial statements presentation. The impact on the financial statements at March 31, 2009 is summarized in Note 1 in the attached financial statements. The following discussion has been amended to reflect the restated numbers.

### *Results of Operations*

We have not conducted any active operations since our Confirmation Date and generated no revenue during the reporting period ended March 31, 2009. We anticipate that we will not generate any revenues until we acquire or merge with another company.



We had total expenses of \$150,533 for the three month period ended March 31, 2009 compared to \$50,661 for the three month period ended March 31, 2008, a substantial increase due primarily to a large increase in interest expense offset by recording of a change in derivative liability per the reclassification and restatement described above, plus a slight decrease in professional fees. In accordance with the modified joint plan or reorganization, management is compensated on an hourly basis at a rate of \$75 per hour. Accordingly, our total compensation expense (stock issued for service) for the three month period ended March 31, 2009 was \$13,155 compared to \$16,650 for the three month period ended March 31, 2008, a decrease of \$3,495. Such compensation is paid through the issuance of common stock valued at \$.10 per share based on the reorganization plan approved by the Bankruptcy court.

Our total interest expense was \$366,392 for the three month period ended March 31, 2009 compared to \$12,949 for year three month period ended March 31, 2008. During the quarter ended March 31, 2009, we issued convertible notes bearing an annual interest rate of 8% and which are convertible within six months from the date of each note. The notes contain a convertible feature allowing the holder to convert all or a portion of the outstanding balance into our common stock. The accounting treatment is explained in Note 5 to the attached financial statements. Based on the restated calculations, we have recorded a charge to interest expenses of \$350,710 at the time of issuance. We also recorded other income of \$254,709 because of the change in derivative liability at March 31, 2009 due to a decrease in the Company's stock price at March 31, 2009. As of March 31, 2009 the amount of the convertible notes outstanding totaled \$131,000, all of which is short-term convertible debt.

Relating to total expenses, during the quarter ended June 30, 2002, the Company passed a resolution to pay rent, office and secretarial services to a stockholder of the Company at a rate of \$500 per month.

### ***Liquidity and Capital Resources***

As of March 31, 2009, our total assets consisted solely of \$19,439 in cash. We have limited cash and we are dependent upon loans and advances from our management and others to fund our operating expenses pending the completion of a merger or acquisition. As of March 31, 2009, we had total liabilities of \$1,272,475 of which \$355,351 related to tax liabilities incurred prior to the Chapter 11 Plan of Reorganization. At March 31, 2009, a total of \$660,689 of our liabilities related to funds borrowed by us from our management and others (not taking into account the derivative liability related to the convertible notes payable). This number represents an increase of \$54,544 since December 31, 2008. An officer of the Company advanced \$14,100 to the Company during the three months ended March 31, 2009. The Company repaid the officer \$67,328 during the three months ended March 31, 2009. These advances bear interest at 10% and have no maturity date. The balance of advances was \$262,524 and \$315,752 at March 31, 2009 and December 31, 2008, respectively.

In the event we are able to locate an acquisition candidate, we anticipate that some or all our debt to management and others will be converted into additional shares of common stock. The conversion price, if a conversion of debt was to occur, of which there can be no assurance, has not been established.

We intend to continue paying for various filing fees and professional fees relating to our reporting obligations and to fund the costs which may arise from seeking new business opportunities by borrowing funds from our management and others..

Because all business operations have been terminated, we have taken steps to minimize our operational expenses. We have no source of revenue and it is likely that we will be required to raise additional capital in order to attract a potential acquisition partner. We do not know how much additional capital will be required and if our capital requirements will exceed the financial resources of our management or others that have advanced funds for our operations. We may seek alternatives sources for financing. In either case, we can give no assurance that we will be able to raise sufficient additional capital to continue as a shell company. It is also likely that any future acquisition will be made through the issuance of shares of our common stock which will result in the dilution of the percentage ownership of the current shareholders.

The auditors' report included with our Annual Report on Form 10-K for the year ended December 31, 2008 contains a going concern qualification, which provides that our ability to continue as a going concern is dependent upon it raising additional capital. We will continue to be an inactive company unless and until we raise additional capital and acquire an operating company. There can be no assurance that either will occur.

### *Critical Accounting Policies*

This Management's Discussion and Analysis of Financial Condition and Results of Operations discuss the Company's Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. We have terminated our previous operations and such operations are treated as discontinued operations for financial statement purposes.

We anticipate that in the future, the preparation of our financial statements will require management to make estimates and assumptions that will affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management will evaluate its estimates and assumptions, including those related to inventory, income taxes, revenue recognition and restructuring initiatives. We anticipate that management will base its estimates and judgments on historical experience of the operations we may acquire and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, will affect its more significant judgments and estimates used in the preparation of our Consolidated Financial Statements following the completion of an acquisition:

Inventory. The Company will be required to reduce the stated value of its inventory for obsolescence or impairment in an amount equal to the difference between the cost of the inventory and the estimated market value, based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional reductions in stated value may be required.

Income Taxes. In determining the carrying value of the Company's net deferred tax assets, the Company will be required to assess the likelihood of sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions, to realize the benefit of these assets. If these estimates and assumptions change in the future, the Company may record a reduction in the valuation allowance, resulting in an income tax benefit in the Company's Statements of Operations. Management will be required to evaluate the realizability of the deferred tax assets and assesses the valuation allowance quarterly.

Goodwill and Other Long-Lived Asset Valuations. In June 2001, the FASB issued SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001 with early adoption permitted for companies with fiscal years beginning after March 15, 2001. We currently have no intangible assets. At such time as we have intangible assets, we will adopt the new rules on accounting for goodwill and other intangible assets. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives.

Revenue Recognition. At such time as we have revenues from operations, we will adopt revenue recognition policies consistent with generally acceptable accounting standards.

Stock-Based Compensation. Equity securities issued for services rendered have been accounted for at the fair market value of the securities on the date of authorization. On January 1, 2006, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, ( SFAS 123(R) ) which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payments to employees and Directors, including employee stock options and stock purchases related to our employee stock option and award plans. SFAS 123(R) supersedes our previous accounting under Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ) for periods beginning in the fiscal year ended December 31, 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ( SAB 107 ) relating to SFAS 123(R). We have applied the provisions of SAB 107 in our adoption of SFAS 123(R). We adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of our fiscal year ended December 31, 2006. SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our Statement of Operations. Under SFAS 123(R), stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. At March 31, 2009, we have no outstanding options or warrants, nor were any options or warrants granted during the three month period then ended. Therefore we did not recognize any stock-based compensation expense under SFAS 123(R) for the reporting period.

### ***Interest Rate Risk***

We currently have debt and will undoubtedly incur debt to finance our operations. We anticipate that a substantial amount of our future debt and the associated interest expense will be subject to changes in the level of interest rates. Increases in interest rates would result in incremental interest expense.

### ***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### ***Contractual Obligations and Commitments***

Except for the payment of accrued management compensation, accrued taxes, rent and other payables, all of which are described in the financial statements attached hereto, we have no contractual commitments or obligations.

### ***Inflation***

The Company does not believe that inflation will negatively impact its business plans.

### **Other Matters**

The Company will not effect any merger unless it first obtains approval from its shareholders. In connection with obtaining shareholder approval of a proposed merger, the Company will distribute a Proxy, Notice of Meeting of Stockholders and Proxy Statement which contains information about the proposed acquisition transaction. Such information will likely include audited financial statements and other financial information about the acquisition target which meets the requirements of Form 8-K as promulgated under the Securities Exchange of 1934, as amended, resumes of potential new management, description of potential risk factors which shareholders should consider in connection with their voting on the proposed acquisition and a description of the business operations of the acquisition target.

Troika and its affiliate will vote all of their shares of the Company's common stock for or against any merger proposal in the same ratio which the shares owned by other shareholders are voted. This will permit other shareholders to be able to effectively determine whether the Company acquires any particular Operating Company. The merger will be effected only if a majority of the other shareholders attending the meeting of shareholders in person and/or by proxy, vote in favor of such proposed merger. The shares of Troika and its affiliates will be included for purposes of determining whether a quorum of shareholders is present at the meeting.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is a Smaller Reporting Company as defined under §229.10(f)(1) of Regulation S-K and is not required to provide the information required by this Item.

### **ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), an evaluation was performed under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our management, including our principal executive officer and our principal financial officer, concluded that the design and operation of these disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 1A. RISK FACTORS**

We are a smaller reporting company and not required to provide the information required by this item.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the three month period ended March 31, 2009 we issued 131,550 shares of our restricted common stock to our officers for management services as follows:

Recipient	Number of Shares	Attributed Value <sup>(1)</sup>
Mark A. Scharmann	90,000	\$9,000
Dan Price	3,000	300
David Knudson	38,550	3,855

<sup>(1)</sup>The \$.10 per share price for these services was established in the Bankruptcy Plan of Reorganization referred to in Part I, Item 2 of this report on Form 10-Q.

All of the foregoing shares of common stock issued were issued in non registered transactions in reliance on the exemption from registration available under Section 4(2) of the Securities Act.

**ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES**

None

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

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

- Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- Exhibit 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- Exhibit 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

SIGNATURE

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

Dated: August 18, 2009

PACIFIC ALLIANCE CORPORATION

By

/s/ Mark A. Scharmann  
President/Principal Executive Officer

By

/s/ David Knudson  
Principal Financial Officer