

PACIFICNET INC  
Form POS AM  
December 18, 2007

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As filed with the Securities and Exchange Commission on December 17, 2007

Registration No. 333-134127

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

**POST-EFFECTIVE AMENDMENT NO. 1  
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 Shuguang 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.  x

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.  o

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.  o

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.  o

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

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**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	\$ 10.00(7)	\$ 1,040,000	\$ 111.28
Common Stock, \$.0001 par value per share	26,000 (6)	\$ 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
<b>TOTALS</b>	<b>2,006,000</b>		<b>\$ 21,367,540</b>	<b>\$ 2,286.33 (10)</b>

- (1) Represents the shares of our common stock issuable upon conversion of convertible debentures due March 13, 2009 and issuable in lieu of cash payments of monthly redemption amounts.
- (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. 2 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.**

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**EXPLANATORY NOTE**

This Post-Effective Amendment No. 1 on Form S-1 contains an updated prospectus relating to (i) the current business operations of the registrant, (ii) restated audited financial statements for the fiscal years ended December 31, 2006, 2005 and 2004, and (iii) the disclosure of certain material events since the filing and effectiveness of the original registration statement on Form S-1 (Reg No. 333-134127). The securities being offered by the selling stockholders named in the prospectus contained herein were registered on the original registration statement that was declared effective by the Securities and Exchange Commission on December 8, 2006. All filing fees payable in connection with the registration of the securities being offered for resale herein were previously paid in connection with the filing of the original registration statement.

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**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 17, 2007

**PROSPECTUS**

**PACIFICNET INC.**

3,106,767 Shares of Common Stock

This prospectus relates to the resale of up to 3,106,767 shares of our common stock being offered by the selling stockholders. Of the shares covered by this prospectus, 756,293 shares have been issued, 690,908 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 569,648 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 11, 2007, was \$4.87.

**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 \_\_\_\_\_, 2007.

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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. and its subsidiaries.

### About PacificNet Inc.

#### OVERVIEW

PacificNet Inc. is a leading provider of gaming technology, e-commerce and Customer Relationship Management (CRM) in China. Our goal is to take a leading role in providing gaming technology and CRM, which are rapidly expanding business sections in Asia. Our gaming products are specially designed for the Chinese and Asian gamers and we focus on integrating localized Chinese and Asian themes and content, advanced graphics, digital sound effects and popular domestic music, with secondary bonus games and jackpots. Our gaming clients include the leading hotels, casinos, and gaming operators in Macau, Asia, and Europe.

Through our subsidiaries we invest in and operate companies that provide outsourcing services, telecom value-added services (VAS) and telecom products and services. Our business process outsourcing (BPO) services group includes call centers, providing customer relationship management (CRM), and telemarketing services. 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 voice over internet protocol (VOIP), as well as mobile phone VAS, such as short messaging services (SMS) and multimedia messaging services (MMS). Our telecom products and services include IT and distribution services, and online mobile phone distribution. Our e-commerce and CRM clients include the leading telecom companies, banks, insurance, travel, marketing and business services companies and telecom consumers in Greater China such as China Telecom, China Mobile, Unicom, PCCW, Hutchison Telecom, Bell24, Motorola, Nokia, SONY, TCL, Huawei, American Express, Citibank, HSBC, Bank of China, Bank of East Asia, DBS, TNT, China and Hong Kong government.

PacificNet employs approximately 1,200 staff in our various subsidiaries throughout China with offices in Hong Kong, Beijing, Shanghai, Shenzhen, Guangzhou, Macau and Zhuhai China, USA, and the Philippines.

#### PacificNet’s Business Units

We categorize our current operations into two business units consisting of our gaming technology business, which includes electronic gaming machines, mobile games and i-gaming software, and our legacy business, which includes CRM, e-commerce and telecom products.

#### Gaming Technology Business Operating Subsidiaries

- **PacificNet Games Limited (PacGames)**, is a leading provider of Asian multi-player electronic gaming machines, gaming technology solutions, 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.
- **Take1 Technologies** ([www.take1technologies.com](http://www.take1technologies.com)) , is in the business of designing and manufacturing electronic multimedia entertainment kiosks, coin-op kiosks and machines, electronic

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gaming machines (EGM), bingo and slot machines, AWP (Amusements With Prizes) games, server-based downloadable games systems, and Video Lottery Terminals (VLT) such as Keno and Bingo machines, including hardware, software, and cabinets.

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### Legacy Business Operating Subsidiaries

- **Pacific Solutions Technology**, is a CMM Level 3 certified software development center with over 200 software programmers located in Shenzhen, China, and specializes in the development of client-server systems, internet e-commerce software, online and casino gaming systems and slot machines, banking and telecom applications using Microsoft Visual C++, Java, and other rapid application development tools.
- **PacificNet Epro** (www.EproTel.com.hk): CRM Call Center and Customer Services Outsourcing
- **PacificNet Clickcom** (www.clickcom.com.cn), MOABC.com : VAS,SP,( SMS, WAP)
- **Guangzhou Wanrong** (www.my2388.com) : VAS, SP, (SMS,MMS,IVR,WAP, Java Games)
- **PacificNet Communications Limited**,
- **iMobile**, (www.imobile.com.cn, www.18900.com, wap.17wap.com)

### *PacificNet's Gaming Products*

Our gaming products include:

- Multi-player Electronic Table Games: Baccarat, Sicbo, Fish-Prawn-Crab, and Roulette Machines, server based games (SBG) with multiple client betting stations.
- Slot Machines
- Bingo and Keno Machines
- Video Lottery Terminals (VLTs)
- Server-Based Gaming Machines (SBG)
- Amusement With Prizes (AWP) Machines
- Online iGaming Software Development
- Client-Server Gaming Systems
- CMM Level 3 Certified Gaming Software Development Center in China with 200 Professional Software Developers
- Gaming Systems, Cabinet Design and Sales, Parts Sales, OEM Games. We design and sell gaming machine cabinets, replacement parts.

### *PacificNet Gaming Technology*

**1. Participation games:** Company-owned gaming machines that we lease based upon any of the following payment methods: (1) a percentage of the net win of the gaming machines, (2) fixed daily fees, or (3) in the case of wide-area progressive gaming machines, a percentage of the amount wagered or a combination of a fixed daily fee and a percentage of the amount wagered.

**2. Wide Area Game Network, Community Gaming:** Electronically linked gaming machines that are located across multiple casinos within a gaming jurisdiction. The linked gaming machines contribute to and compete for large, system-wide progressive jackpots and are designed to increase gaming machine play for participating casinos by giving the players the opportunity to win a larger jackpot than on a stand-alone gaming machine.

**3. Local Area Progressive Jackpots (LAP) participation games:** Electronically linked gaming machines that are located within a single casino to a progressive jackpot for that specific casino.

**4. Video Lottery Terminals:** Video gaming machines featured with localized Chinese and Asian themes and contents, advanced graphics, digital sound effects and music and incorporate many of the same features from our other gaming machines.

**5. Server-based Gaming:** A gaming system in which game content and peripherals are configured, maintained and refreshed over a network that links groups of gaming machines to a remote server that also enables custom configuration by operators and central determination of game outcomes.

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## **Gaming Market Overview on Macau, China**

As of the end of 2006, Macau (a Special Administrative Region of the People's Republic of China) became the largest and fastest-growing gaming market in the world in total revenues. According to statistics provided by the Macau government, in 2006, Macau's gaming revenues exceeded US\$7 billion (MOP 56.2 billion patacas), surpassing the Las Vegas Strip gaming revenues of US\$6.6 billion. Macau borders Zhuhai City of Guangdong Province of China, one of the country's wealthiest and most developed regions and is an hour away from Hong Kong via ferry. In 2006, the number of tourists visiting Macau reached an all-time record of 22 million, an increase of 17 percent compared with 2005, of which 55% or 12 million visitors were from mainland China. At the end of 2006, there were 22 casinos, 83 hotels and similar establishments in Macau with close to 13,000 rooms. By 2010, the number of tourists is expected to nearly double to nearly 30 million visitors per year. Approximately one billion people live within a three-hour flight of Macau. Numerous hotel, gaming, and other projects are in the works in Macau which are expected to add over 10,000 guest rooms and over 20,000 live entertainment seats in eight separate venues. The number of hotel-casinos in operation and in development in Macau continues to grow, including well-known Chinese names such as Galaxy and Melco, and famous Las Vegas names such as the Sands, the Venetian, Wynn Resort and Crown Macau. With the disposable income of the average Chinese on the rise, Macau's gaming and entertainment market is expected to grow for years to come. Macau is the only area in China where gambling is legal.

## **RECENT DEVELOPMENTS**

### **ACQUISITION OF GUANGDONG POLY BLUE EXPRESS COMMUNICATIONS CO.LTD**

On September 5, 2007, we entered into an agreement to acquire a 51% equity interest in Guangdong Poly Blue Express Communications Co., Ltd. (Guangdong Poly). Guangdong Poly is a leading operator approved by China's Welfare Lottery Center to develop and operate real-time electronic paperless lottery services in China, in accordance with the rules and regulations set by China's Welfare Lottery Center. US\$2 million, of which US\$1 million was payable in PACT restricted shares and US\$1 million payable in cash. The acquisition was closed on October 25, 2007.

### **SALE OF GUANGZHOU 3G**

As part of our strategy to move away from telecom VAS, on April 30, 2007, through our wholly-owned subsidiary, PacificNet Strategic Investment Holdings Limited ("PSI Holdings"), we entered into a stock purchase and sale agreement with Heyspace International Limited to sell PSI Holdings' 51% interest in Guangzhou 3G's parent company, Pacific 3G Information & Technology Co. Limited. The purchase price was \$6,000,000 payable in installments over a six month period or earlier if Heyspace completed its initial public offering prior to October 31, 2007. On November 25, 2007, we entered into a memorandum of understanding ("MOU") with Heyspace. Pursuant to the MOU, we agreed with Heyspace that for a period commencing on November 25, 2007 through March 31, 2008, we are free to seek new buyers to purchase PSI Holdings' share ownership in Guangzhou 3G at a consideration and term which at a minimum will not cause any disposal loss to us. In addition, Heyspace agreed to return to us the 51% ownership of Guangzhou3G which Heyspace had agreed to purchase, but did not complete its payment obligations under the stock purchase and sale agreement.

### **COMPLETION OF \$5 MILLION PRIVATE PLACEMENT FINANCING FOR GAMING TECHNOLOGY EXPANSION IN MACAU AND ASIA**

On February 6, 2007, PacGames entered into a definitive agreement for a \$5 million financing in the form of secured convertible note with Pope Asset Management, LLC (Pope), an institutional investor. Proceeds from the financing will be used to provide PacGames with additional working capital in expanding its gaming technology operations, funding for strategic acquisitions in China and funding for general corporate purposes. The \$5 million convertible note

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issued by PacGames to Pope matures on February 6, 2010, and may be converted into 26% to 32% ownership interest in PacGames based on reaching certain net income milestones during fiscal year 2007. The interest rate on the convertible note will initially be set at 8%, and shall increase to 15% if the note is not converted prior to maturity.

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FORMING A CALL CENTER JOINT VENTURE WITH BELLSYSTEM24 IN SHANGHAI, CHINA

On January 5, 2007, we entered into a joint venture agreement with Bellsystem24, the largest telemarketing call center in Japan, to form a new joint venture company called BELL-PACT Consulting Limited. The new joint venture company is jointly owned 40% by PacificNet and 60% by Bellsystem24. The joint venture will offer CRM call center consulting and training services, technical and business consulting services, network product sales, software development, system integration, as well as value-added services and other relevant services out of Shanghai catering to the Greater China markets.

ADDITIONAL ACQUISITION OF TAKE1 TECHNOLOGIES IN Q1 2007

On January 5, 2007, we entered into a Securities Subscription Agreement to exercise an option to acquire an additional 31% interest in Take1 Technologies Limited ("Take1"). On March 5, 2007, we consummated the purchase for \$721,887 (paid entirely with shares of PacificNet: 149,459 PACT Shares, valued at \$4.83 per share). As a result, we became the majority and controlling shareholder of Take1 with our ownership percentage increased from 20% to 51%.

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. We will pay interest in shares, provided that certain conditions are met, or in cash at the rate of 6% for the second year the debentures are outstanding and then 7% for the third year.

Under the terms of a registration rights agreement entered into at the time of the private placement, the Company was obligated to file a registration statement with respect to the shares issuable under the debenture and the warrants by April 30, 2006, and have the registration statement declared effective by the SEC no later than June 28, 2006. Due to various factors, the Company did not file the registration statement until May 15, 2006, and it was not declared effective until December 8, 2006. Therefore, under the terms of the registration rights agreement, the Company was obligated to pay liquidated damages to the investors at the rate of 2% of the principal amount of the debenture each month beginning on June 28, 2006 until the effectiveness of the registration statement, which was equal to \$1,120,000, in the aggregate.

In February 2007, upon reaching an agreement on the amount and payment of accrued liquidated damages, the Company signed a Settlement and Release Agreement with each of the investors. Under the terms of the Settlement and Release Agreements, the Company paid an aggregate \$140,000 in cash as satisfaction in full of liquidated damages owed to Basso Fund Ltd., Basso Multi-Strategy Holding Fund Ltd., and Basso Private Opportunities Holding Fund Ltd.. Partial liquidated damages owed to Whalehaven Capital Fund Ltd. were paid in the amount of \$35,000 in cash, with the remaining liquidated damages in the amount of \$105,000 paid in the form of a new convertible debenture due February 2009 (the "Amended Debenture"), on substantially the same terms as the original debentures, except that interest only is paid on the new debentures until October 2008 and beginning in November 2008 until February 2009, when the Amended Debentures are due, the monthly redemption amount under the Amended Debentures shall be equal to \$315,000. The remaining investors also agreed to accept the aggregate \$840,000 in liquidated damages owed to them in the form of the Amended Debentures for the amount of their respective portion of the liquidated damages. The Company also agreed to amend the original debentures to shorten the term for payment of the original principal amount to a 22 month term. As a result the monthly redemption amount for the original debentures increased from \$320,000 to \$ \$363,638. All other terms and conditions of the original debenture remains in full force and effect.

In July 2007, we failed to timely make scheduled principal and interest payments under the Amended Debenture in the aggregate amount of \$8,000,000. Pursuant to the terms of the Amended Debenture, we were obligated to make monthly redemption payments commencing on January 1, 2007, until the Amended Debenture was redeemed in full. On August 1, 2007, the Company made the July monthly redemption and interest payments to all of the debenture holders. The Company has calculated the amount of the direct financial obligation as accelerated and increased to be \$3,079,091.

RESIGNATION AND WITHDRAWAL OF AUDIT REPORTS BY CLANCY AND CO., P.L.L.C.

On January 18, 2007, we were verbally informed by our principal independent accountant, Clancy and Co. P.L.L.C. (“Clancy”) that it was resigning from its engagement with us, which resignation was effective immediately. Clancy provided written confirmation to us on January 19, 2007. On February 7, 2007, our audit committee approved the appointment of Kabani & Company, Inc. (“Kabani”), as the our new independent public accountant and Kabani was engaged by the audit committee on the same day.

On March 12, 2007, we received an e-mail communication, to which was attached a letter dated February 17, 2007 (“March 12 Letter”) from Clancy suggesting that certain of the criteria by which an option grant date is determined may not have been satisfied in connection with our fixing of the grant date for options. Subsequently, on March 16, 2007, Clancy sent a further written communication in which it stated that their audit reports regarding the financial statements for the years ended December 31, 2004 and 2005 (but not 2003) were withdrawn. On March 22, 2007, we filed a Current Report on 8-K under Item 4.02 Non-Reliance on Previously Issued Financial Statement or a Related Audit Report or Completed Interim Review, disclosing that the Clancy’s audit reports for the fiscal years ended December 31, 2005 and 2004 had been withdrawn. On April 4, 2007, we filed Amendment No. 2 to the Form 10-KSB/A for the fiscal year ended December 31, 2005, to remove Clancy’s audit report and to include a legend that stated “The financial statements of PacificNet Inc. and its subsidiaries for the fiscal years ended December 31, 2005 and 2004 are unaudited.”

After completion of an independent investigation by the audit committee of the issues presented by Clancy, it was determined that it was necessary to restate our financial statements for the years ended December 31, 2006, 2005 and 2004. In July 2007, our audit committee engaged Kabani to perform the re-audit for those years. On October 25, 2007, we filed Amendment No. 3 to the Form 10-KSB/A for the fiscal year ended December 31, 2005, which included restated financial statements for the years ended December 31, 2005 and 2004, and an audit report issued by Kabani. On November 14, 2007, we filed Amendment No. 1 to the Form 10-K.A for the fiscal year ended December 31, 2006, which included restated financial statements for the years ended December 31, 2006, 2005 and 2004, and an audit report issued by Kabani.

NASDAQ NOTICE OF DELISTING OR FAILURE TO SATISFY A CONTINUED LISTING RULE OR STANDARD

On March 30, 2007, we received a letter from The Nasdaq Stock Market indicating that as a result of the withdrawal of the audit reports for our financial statements for the fiscal years ended December 31, 2005 and 2004, by Clancy, we were not in compliance with the Nasdaq requirements for continued listing set forth in Nasdaq Marketplace Rule 4310(c)(14). Nasdaq Marketplace Rule 4310(c)(14) requires that annual reports filed with Nasdaq contain audited financial statements.

Accordingly, our securities were subject to delisting on April 11, 2007, unless we appealed the NASDAQ Staff’s determination by requesting a hearing before the Nasdaq Listing Qualifications Panel (the “Panel”). We had a hearing with the Panel on May 17, 2007, at which time we presented a plan of compliance to the Panel with respect to the timeline for the re-instatement of audited financial statements for the fiscal years ended December 31, 2005 and 2004.

On July 2, 2007, we received a letter (the “Appeal Letter”) from The Nasdaq Stock Market indicating that, as a result of our appeal of the initial determination of the NASDAQ Staff of the Listing Qualifications department to seek the delisting of PacificNet’s common stock from the Nasdaq Global Market due to non-compliance with certain of Nasdaq’s listing maintenance rules, we had been granted an extension for such compliance, subject to the conditions contained in the Appeal Letter and that the Company provides certain other confirmations to the Nasdaq regarding the Company’s stock option granting practices and board member independence. Among other things, one of the conditions for continued listing set forth in the Appeal Letter was that we re-file the Form 10-K for the fiscal year

ended December 31, 2006, and any required amendments to the Form 10-Q for the quarter ended March 31, 2007 and all required restatements, and in addition that we file the Form 10-KSB for each of the fiscal years ended December 31, 2005 and 2004, in a form acceptable to the SEC, with appropriate audit opinions no later than September 27, 2007.

On August 16, 2007, we received a letter from the Nasdaq Office of Appeals informing us that the Nasdaq Listing and Hearing Review Council (the "Listing Council") determined to call for a review of the July 2, 2007 decision of the Panel and also determined to stay the decision to suspend our securities from trading pending further action by the Listing Council. We were permitted to submit any information that we wished the Listing Council to consider in its review and on October 26, 2007 we submitted an updated plan of compliance and a list of all relevant Form 8-K's we had filed since April 2007.

Due to the significant amount of work required to re-audit the years involved, but also due to the lack of cooperation from current management of subsidiaries we disposed of during 2006, we were unable to complete the filings by September 27, 2007. On October 25, 2007, we filed Amendment No. 3 to the Form 10-KSB/A for the fiscal year ended December 31, 2005, which included restated financial statements for the years ended December 31, 2005 and 2004, and an audit report issued by Kabani. On November 14, 2007, we filed Amendment No. 1 to the Form 10-K.A for the fiscal year ended December 31, 2006, which included restated financial statements for the years ended December 31, 2006, 2005 and 2004, and an audit report issued by Kabani.

### About This Offering

This prospectus relates to the resale by the selling stockholders identified in this prospectus of up to 3,106,767 shares of common stock. Of the shares covered by this prospectus, 756,293 shares have been issued, 690,908 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 569,648 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. All of the shares, when sold, will be sold by these selling stockholders. The selling stockholders may sell their shares of common stock from time to time at prevailing market prices.

Common Stock Offered	3,106,767 shares
Common Stock Outstanding at December 11, 2007	11,984,072 shares
Use of Proceeds	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.
NASDAQ ticker symbol	PACT

### **Executive Offices**

We have executive offices located in Hong Kong, Macau, Beijing, Shenzhen and Guangzhou, China, Aberdeen, South Dakota, U.S.A. and Glendale, California, U.S.A.

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We maintain a website at <http://www.PacificNet.com>. Information contained on or accessed through our website is not intended to constitute and shall not be deemed to constitute part of this prospectus.

## 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 corporation in 1999. Our operating history may be insufficient to evaluate our business and future prospects. Although our revenues have grown rapidly in the past three years, primarily as a result of our increased acquisition activity and entry into the gaming business, 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
- 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 and abroad 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:

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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
- Difficulty of retaining key alliances on attractive terms with partners and suppliers
- 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, significant amortization expenses related to goodwill and other intangible assets and exposure to undisclosed or potential liabilities of acquired companies. During the fiscal year ended December 31, 2006, we acquired controlling interests in Guangzhou Wanrong, iMobile and PacGames. We expect that these acquisitions will strengthen our position as a provider of VAS communication products: internet mobile phone distribution and gaming technology 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. To the extent that the goodwill arise from the acquisitions carried on the financial statements do not pass the annual goodwill impairment test, excess goodwill will be charged to future earnings.

**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.**

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.

**We may not be able to attract or retain the management or employees necessary to remain competitive in our industries.** 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 and in developing and expanding our gaming operations.

Our future success depends on the retention and continued contributions of our key management, finance, marketing, and staff personnel, many of whom would be difficult or impossible to replace. Our success is also tied to our ability to recruit additional key personnel in the future. We may not be able to retain our current personnel or recruit any additional key personnel required. The loss of services of any of our personnel could have a material adverse effect on our business, financial condition, results of operations and prospects. 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. During the fiscal year ended December 31, 2006, we completed a financing in which we placed \$8,000,000 in convertible debentures and issued warrants to purchase up to 400,000 shares of common stock. 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 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, we may need to convert U.S. dollars into Hong Kong dollars or Chinese renminbi as appreciation of either currency against the U.S. dollar could have a material adverse effect on results of our business, financial condition and 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 RELATED TO OUR GAMING BUSINESS**

**If we fail to keep pace with rapid innovations in product design and related marketing strategies, or if we are unable to quickly adapt our development and manufacturing processes to release innovative products or**

**systems, our business could be negatively impacted.**

Our future success depends to a large extent upon our ability to continue to rapidly design and market technologically sophisticated and entertaining products that achieve high levels of player acceptance. Our revenues depend on the earning power and life span of our games. Newer game themes tend to have a shorter life span than more legacy game themes, and as a result, we face pressure to design and deploy successful game themes to maintain our revenue stream and to remain competitive. Our ability to develop new and innovative products could be adversely affected by :an inability to roll out new games, services or systems on schedule as a result of delays in connection with regulatory product approval in the applicable jurisdictions, or otherwise.

Our future success also depends upon our ability to adapt our manufacturing capabilities and processes to meet the demands of producing new and innovative products. Because our newer products are generally more technologically sophisticated than those we have produced in the past, we must continually refine our production capabilities to meet the needs of continuing product innovation. In addition, the shorter lifespan of newer products means that we must update our production capabilities more frequently and rapidly than in the past. If we cannot adapt our manufacturing infrastructure to meet the needs of our product innovations, or if we are unable to make upgrades to our production capacity in a timely manner, our business could be negatively impacted.

**If the current popularity and acceptance of gaming declines, our business plans and operation could be would be negatively impacted.**

The gaming industry can be affected by public opinion of gaming. Our success depends on continually developing and successfully marketing new games and gaming machines with strong and sustained player appeal. A new game or gaming machine will be accepted by casino operators only if we can show that it is likely to produce more revenues to the operator than competitors' products. Gaming machines can be installed in casinos on a trial basis, and only after a successful trial period are the machines purchased by the casinos. Participation gaming machines are replaced by casino operators if the gaming machines do not meet and sustain revenue and profitability expectations. Therefore, these gaming machines are particularly susceptible to pressure from competitors, declining popularity, changes in economic conditions and increased taxation and are at risk of replacement by the casinos, which would end our recurring revenues from these machines.

We cannot assure you that the new products that we introduce will achieve any significant degree of market acceptance, that the acceptance will be sustained for any meaningful period. In the event that there is a decline in public acceptance of gaming, either through unfavorable legislation affecting the introduction of gaming into emerging markets, or through legislative and regulatory changes, including tax increases, in existing gaming markets, our ability to continue to sell and lease our gaming machines in those markets and jurisdictions would be adversely affected.

**The gaming industry is intensely competitive. We face competition from a number of companies, some of which have greater resources, and if we are unable to compete effectively, our business could be negatively impacted.**

Competition among gaming machine manufacturers is based on, among other things, competitive pricing and financing terms made available to customers, appeal of game themes and features to the end player and product quality, features and functionality of hardware and software. The gaming technology provider market is saturated, with IGT, Aristocrat, WMS, Bally Gaming and Systems, and, to a lesser extent, Konami and Progressive Gaming Corporation comprising the primary competition. The competition is intense due to the number of providers, as well as the limited number of casino operators and jurisdictions in which they operate. Pricing, product feature and function, accuracy and reliability are amongst the factors in determining a provider's success in selling its system. While there are a number of established, well-financed companies producing machines in the field, a single competitor, IGT, dominates the PRC domestic market for gaming machines. Certain of these competitors have access to greater financial, marketing and product development resources we do, and as a result, may be better positioned to compete in the marketplace.

In addition, new competitors may enter our key markets. Obtaining space and favorable placement on casino gaming floors is a competitive factor in our industry. Competitors with a larger installed base of gaming machines than ours have an advantage in retaining the most space and best positions in casinos. These competitors may also have the advantage of being able to convert their installed machines to newer models in order to maintain their share of casino floor space. In addition, some of our competitors have developed and sell or otherwise provide to customers centralized player tracking and accounting systems which allow operators to accumulate accounting and performance data about the operation of gaming machines. We do not offer a centralized player tracking and accounting system and

that has put us at a competitive disadvantage.

**The unpredictable growth of non–legacy gaming markets may affect our business and prospects.**

The continued growth of non–legacy gaming markets for gaming machines and systems depends heavily on the public’s acceptance of gaming in these markets, as well as the ongoing development of the regulatory approval process by national and local governmental authorities. A portion of our growth is directly tied to our ability to access these new markets. We cannot predict which new jurisdictions or markets, if any, will approve the operation of electronic gaming machines, the timing of any such approval, the public’s acceptance of our gaming machines in these markets or our market share or profitability in these markets. Any decline in the popularity of our gaming products with players, or if we are unsuccessful in developing new products, services or systems, will have a negative impact on our revenues.

**The gaming industry is heavily regulated and changes in regulation by gaming authorities may adversely impact our ability to operate the business.**

The manufacture and distribution of gaming machines, development of systems and the conduct of gaming operations are subject to extensive national, provincial local and foreign regulation by various gaming authorities.

Our ability to continue to operate in certain jurisdictions could be adversely affected by:

- Unfavorable public referendums
- Unfavorable legislation affecting or directed at manufacturers or gaming operators, such as Referendums to increase taxes on gaming revenues
- Adverse changes in or finding of non-compliance with applicable governmental gaming regulations
- Delays in approvals from regulatory agencies
- Limitations, conditioning, suspension or revocation of any of our gaming licenses
- Unfavorable determinations or challenges of suitability by gaming regulatory authorities with respect to our officers, directors, major stockholders or key personnel

Although the laws, rules and regulations of the various jurisdictions in which we operate vary in their technical requirements, virtually all jurisdictions require licenses, permits, qualification documentation, including evidence of integrity and financial stability, and other forms of approval to engage in gaming operations or the manufacture and distribution of gaming machines. Delays in, amendments to, or repeals of legislation approving gaming in jurisdictions in which we operate or plan to commence operations, or delays in approvals of our customers' operations, may adversely affect our operations

Our officers, directors, major stockholders and key personnel are also subject to significant regulatory scrutiny. In the event that gaming or governmental authorities determine that any person is unsuitable to act in such capacity with respect to the Company, we could be required to terminate our relationship with such person. To our knowledge, the Company and our key personnel have obtained, or applied for, all government licenses, registrations, findings of suitability, permits and approvals necessary to conduct their respective activities in the various jurisdictions that we operate. However, there can be no assurance those licenses, registrations, findings of suitability, permits or approvals will be renewed in the future, or that new forms of approval necessary to operate in emerging or existing markets will be granted.

Furthermore, some jurisdictions require gaming manufacturers to obtain government approval before engaging in some transactions, such as business combinations, reorganizations, borrowings, stock offerings and repurchases. Obtaining licenses and approvals can be time consuming and costly. We cannot assure you that we will be able to obtain or maintain all necessary registrations, licenses, permits, approvals or findings of suitability or that the approval process will not result in delays or changes to our business plans.

**Our intellectual property protections may be insufficient to properly safeguard our technology.**

The gaming industry is constantly employing new technologies in both new and existing markets. We rely on a combination of patent and other technical security measures to protect our products, and we intend to file patents for protection of such technologies. Our success may depend in part on our ability to obtain trademark protection for the names or symbols under which we market our products and to obtain copyright protection and patent protection of our proprietary software and other game innovations. We also rely on trade secrets and proprietary know-how. We enter into confidentiality agreements with our employees regarding our trade secrets and proprietary information. We cannot assure you that we will be able to build and maintain goodwill in our trademarks or obtain trademark or patent protection, that any trademark, copyright or issued patent will provide competitive advantages for us or that our

intellectual properties will not be successfully challenged or circumvented by competitors. Furthermore, despite various confidentiality agreements and other trade secret protections, our trade secrets and proprietary know-how could become known to, or independently developed by, competitors.

Notwithstanding these safeguards, our competitors may still be able to obtain our technology or to imitate our products. Furthermore, others may independently develop products similar or superior to ours.

**Expenses incurred with respect to monitoring, protecting and defending our intellectual property rights could adversely affect our business.**

Competitors and other third parties may infringe on our intellectual property rights, or may allege that we have infringed on their intellectual property rights. Monitoring infringement and/or misappropriation of intellectual property can be difficult and expensive, and we may not be able to detect any infringement or misappropriation of our proprietary rights. We may also incur significant litigation expenses protecting our intellectual property or defending our use of intellectual property, reducing our ability to fund product initiatives. These expenses could have an adverse effect on our future cash flow and results of operations. Litigation can also divert management focus from running the day-to-day operations of the business. There can be no assurances that certain of our products, including those with currently pending patent applications, will not be determined to have infringed upon an existing third party patent.

**The intellectual property rights of others may prevent us from developing new products or entering new markets.**

The gaming industry is characterized by the rapid development of new technologies, which requires us to continuously introduce new products using these technologies and innovations, as well as to expand into new markets that may be created. Therefore, our success depends in part on our ability to continually adapt our products and systems to incorporate new technologies and to expand into new markets that may be created by new technologies. However, to the extent technologies are protected by the intellectual property rights of others, including our competitors, we may be prevented from introducing products based on these technologies or expanding into new markets created by these technologies. If our products use processes or other subject matter that is claimed under existing patents, or if other companies obtain patents claiming subject matter that we use, those companies may bring infringement actions against us. We might then be forced to discontinue the affected products or be required to obtain licenses from the company holding the patent, if it is willing to give us a license, to develop, manufacture or market our products. We also might then be limited in our ability to market new products. We might also be found liable for treble damage claims relating to past use of the patented subject matter if the infringement is found to be willful.

If the intellectual property rights of others prevent us from taking advantage of innovative technologies, our financial condition, operating results or prospects may be harmed.

**The discontinuation or limitation of any existing licenses from third parties could adversely affect our business.**

Some of our most popular games and gaming machine features, including certain branded games and ticket-in, ticket-out cashless gaming functionality, are based on trademarks and other intellectual properties licensed from third parties. Our future success may depend upon our ability to obtain, retain and/or expand licenses for additional popular intellectual properties in a competitive market. In the event that we cannot renew and/or expand this or other existing licenses, we may be required to discontinue the games using the licensed technology or bearing the licensed marks, or limit our use of such items.

**Our gaming technology, particularly our wide area progressive networks and centrally determined systems, may experience losses due to technical difficulties or fraudulent activities.**

Our success depends on our ability to avoid, detect, replicate and correct software and hardware errors and fraudulent manipulation of our gaming machines and associated software. To the extent any of our gaming machines or software experience errors or fraudulent manipulation, our customers may replace our products and services with those of our competitors. In addition, the occurrence of errors in, or fraudulent manipulation of, our gaming machines or software may give rise to claims for lost revenues and related litigation by our customers and may subject us to investigation or other action by gaming regulatory authorities, including suspension or revocation of our gaming licenses or disciplinary action. Additionally, in the event of such issues with our gaming machines or software, substantial

engineering and marketing resources may be diverted from other areas to rectify the problem.

**Our business is subject to other economic, market, and regulatory risks:**

We face risks associated with doing business in international markets related to political and economic instability and related foreign currency fluctuations. Unstable governments and changes in current legislation may affect the gaming market with respect to gaming regulation, taxation, and the legality of gaming in some markets, as we experienced with the Russian market in fiscal 2006.

Customer financing is becoming an increasing prevalent component of the sales process and therefore increases business risk of non-payment, especially in emerging markets. In some instances, our gaming machines are installed in casinos on a trial basis, and only after a successful trial period are the machines purchased by the customers. These customer financing arrangements delay our receipt of cash and can negatively impact our ability to enforce our rights upon default if the customer is from a foreign country.

Our competitors have begun to provide free game theme conversions to customers in connection with product sales. While we intend to continue to charge our customers for game theme conversions including CPU-NXT upgrade kits, we cannot be sure that competitive pressure will not cause us to increase the number of free game theme conversions we offer to our customers, which would decrease the revenue we expect to receive for game theme conversions.

## **RISKS RELATED TO OUR CRM AND TELECOM VAS PRODUCTS AND SERVICES**

**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. 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. Furthermore, 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 operations 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 large sums of money 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.

**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.

**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.

## **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 cannot 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 futures 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
- 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 or 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.

## **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 gaming, telecom and VAS businesses are 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 over the last three years. We do not integrate the business operations of our target companies and therefore have separate administration and accounting personnel at each subsidiary location. 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. Furthermore, concerns about our stock option granting practices and recording of such grants, led to the withdrawal of the previously issued audit reports for December 31, 2005 and 2004 by our previous independent auditors, Clancy and Co., P.L.L.C. These actions have required us to re-evaluate our disclosure controls and procedures and conclude that they are ineffective. We have sought to improve our existing disclosure controls and procedures and to that end, have substantially increased our accounting and administrative resources. 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. Throughout the year, we have been evaluating 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 as of December 31, 2007, 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, 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. In 2007, we began to redeem up to \$363,638 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.

**We may have to pay liquidated damages and our debenture may be declared in default if we are unable to re-instate use of the prospectus contained in our Registration Statement on Form S-1**

On March 27, 2007, we suspended use of the prospectus contained in our Registration Statement on Form S-1 (File No. 333-134127) that was declared effective on December 8, 2006, due to the lack of fiscal year end 2005 and 2004 audited financial statements. As a result 3,152,228 shares of common stock registered there under, are not freely tradable upon resale. Under the terms of our registration rights agreement with the holders of the debentures, we are subject to paying liquidated damages equal to 2% of the debenture amount on a monthly basis, up to a maximum of 20% per holder, in the event we suspend use of the prospectus for longer than 15 consecutive calendar days or more than an aggregate of 30 calendar days during any 12-month period. Moreover, at the election of the debenture holder, our debenture could be declared in default, resulting in acceleration of the amounts due, if such suspension continues more than 20 consecutive trading days or 60 non-consecutive trading days during any 12-month period. We may not have cash on hand, or have the ability to access cash to pay the debenture in full if any of our debenture holders declare our debentures in default and demand acceleration of their debenture. If the debenture holders refuse to negotiate with us, our failure to pay upon, demand could result in the debenture holders bringing claims against us for payment, which may include severe penalty payments. If they are successful in such claims, we may suffer significant losses, which may severely curtail our ability to continue business operations.

**If we are not successful in defending against a lawsuit by one of our debenture holders our business operations could be severely curtailed.**

One of our debenture holders has filed a complaint against us in the Supreme Court of the State of New York claiming that we are in default for failure to timely make payments under the debentures. The debenture holder is demanding payment of \$3,253,163.80 in the aggregate, together with any accrued but unpaid interest through the date of judgment and reimbursement of attorney fees and other costs and expenses incurred together with costs and disbursements of the action and such other further relief afforded by the Court. Although we intend to vigorously defend ourselves against this action, if the debenture holder is successful in its claims or, if based upon advice from legal counsel we choose to settle this litigation, such payments could put a severe strain on our available cash and we could suffer significant losses, which could curtail our ability to continue our business.

**If we are unable to regain compliance with the Nasdaq rules for continued listing, are securities may be de-listed from the Nasdaq Global Market.**

We are currently subject to possible delisting procedures by the NASDAQ Stock Market for failing to have audited financials for the fiscal years ended December 31, 2005 and 2004. Although our financial statements for those periods have been re-audited and we have filed with the Securities and Exchange Commission amendments to our Annual Reports on Form 10-K and Form 10-KSB for the years ended December 31, 2006 and 2005, respectively, the Nasdaq Listing and Hearings Council, upon a review of our record, could make a determination to de-list our securities. If such a determination is made, we may seek to have our securities quoted on the Over-the Counter Bulletin Board, but there is no assurance that we will be able to do so in a timely fashion and as a result there may be no active public market for our common stock.

**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
- 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 December 11, 2007, we had 11,984,072 shares of common stock 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. Under this prospectus we are registering 3,106,767 shares of our common stock for sale by the selling stockholders named herein, which will become freely tradable without restriction or further registration when the Registration Statement on Form S-1, of which this prospectus is part is declared effective by the SEC. Sales by our current shareholders of a substantial number of shares could significantly reduce the market price of our common stock.

As of December 11, 2007, we had warrants outstanding to purchase 1,007,138 shares of our common stock. To the extent that the 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. 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 stockholders 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 stockholders 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 stockholders,
- the number and percent of shares of our common stock that the stockholders 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 stockholders under this prospectus, and
- the number and percent of shares of our common stock to be beneficially owned by the stockholders after the offering of the resale shares (assuming all of the offered resale shares are sold by the stockholders).

The number of shares in the column “Maximum Number of Shares to be Sold” represents all of the shares that each stockholder may offer under this prospectus. We do not know how long the stockholders 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 stockholders regarding the sale of any of the resale shares. The shares offered by this prospectus may be offered from time to time by the stockholders listed below.

This table is prepared solely based on information supplied to us by the listed stockholders, 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 11,984,072 shares of our common stock issued and outstanding on November 30, 2007 or subject to issuance upon exercise of the warrants, adjusted as may be required by rules promulgated by the SEC.

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 was our investor and public relations firm at the time of the issuance of the shares.

<b><u>Name of Selling Stockholder</u></b>	<b>Shares Beneficially Owned Prior to Offering</b>	<b>Maximum Number of Shares to be Sold</b>	<b>Number of Shares Beneficially Owned After Offering</b>	<b>Percentage Ownership After Offering</b>
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)	641,455	641,455	0	0
Smithfield Fiduciary LLC(6)	566,667	566,667	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. (9)	20,000	20,000	0	0
Sino Strategic Investment Limited (10)	385,848	385,848	0	0
Sunshine Ocean Investment Limited (11)	192,924	192,924	0	0
C.E. Unterberg, Towbin Capital Partners I, L.P. (12)	75,000	75,000	0	0
Alpha Capital AG (13)	175,720	175,720	0	0
Whalehaven Capital Fund Limited (14)	150,000	150,000	0	0
Basso Private Opportunities Holding Fund Ltd. (15)	26,130	26,130	0	0
Basso Fund Ltd. (16)	20,909	20,909	0	0
Basso Multi-Strategy Holding Fund Ltd. (17)	57,500	57,500	0	0
DKR SoundShore Oasis Holding Fund Ltd.(18)	225,000	225,000	0	0
C.E. Unterberg, Towbin LLC (19)	16,000	16,000	0	0
Whalehaven Fund Limited (20)	5,144	5,144	0	0
Rockmore Investment Master Fund Ltd. (21)	15,538	15,538	0	0
Excalibur Limited Partnership (22)	15,432	15,432	0	0
Vertical Ventures LLC (23)	25,720	&#16		