

PACIFIC ALLIANCE CORP  
Form 10-Q  
August 23, 2010

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

**FORM 10-Q**

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010.

OR

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

Commission file number: 000-51777

PACIFIC ALLIANCE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

87-044584-9  
(I.R.S. employer  
identification No.)

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986 West 2<sup>nd</sup> Street Bldg 12-A, Bay 6, Ogden, UT 84404

(Address of principal executive offices)

Registrant's telephone no., including area code: (801) 621-5200

N/A

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

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

Smaller reporting company ☒

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

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At August 15, 2010, 18,882,267 shares of common stock of the Company were outstanding, with an additional 1,000,000 shares of Preferred A stock outstanding, convertible into 30,330,000 shares of common stock, and 2,952,548 shares of Preferred B stock outstanding, convertible into 2,952,548 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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## **PART I - FINANCIAL INFORMATION**

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

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

Our unaudited balance sheet at June 30, 2010 and our audited balance sheet at December 31, 2009; the related unaudited statements of operations for the three and six month periods ended June 30, 2010 and 2009 ; and the related unaudited statements of cash flows for the six month periods ended June 30, 2010 and 2009 are attached hereto.

**PACIFIC ALLIANCE CORPORATION****CONSOLIDATED BALANCE SHEETS**

	June 30, 2010 (Unaudited)	As of December 31, 2009 (Audited)
<b>ASSETS</b>		
Current Assets		
Cash	\$ 101,842	\$ 610,088
Accounts receivable, net	3,385,118	909,020
Inventory	2,192,880	1,249,068
Prepaid expenses	246,942	3,350
Other current assets	326,788	-
Note receivable, related party	346,230	-
Total Current assets	6,599,800	2,771,526
Property and equipment, net	12,878,132	180,053
<b>TOTAL ASSETS</b>	<b>\$ 19,477,932</b>	<b>\$ 2,951,579</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 2,236,227	\$ 322,899
Line of Credit	1,820,184	-
Notes payable, current maturities	2,246,749	-
Accrued Liabilities	619,481	438,262
Notes payable to Related Parties	74,913	167,600
Total Current Liabilities	6,997,554	928,761
Long-Term Debt		
Deferred income tax liability	517,657	-
Notes payable, net of current portion	3,527,189	-
Total Long-Term Liabilities	4,044,846	-
Total Liabilities	11,042,400	928,761
Stockholders' Equity		
Common Stock, par value \$0.001, authorized 250,000,000 shares;		
18,882,267 and 3,882,267 shares issued and outstanding, respectively	18,882	3,882
Series A Preferred shares, par value \$0.001,		

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authorized 5,000,000 shares; 1,000,000 and 1,000,000 shares issued and outstanding, respectively	1,000	1,000
Series B Preferred shares, no par value, authorized 3,300,000 shares;	-	-
2,622,149 and none issued and outstanding respectively	2,616,038	-
Paid-in Capital	6,028,123	2,428,884
Preferred stock subscriptions	-	1,269,000
Subscriptions receivable	(250,000)	(1,135,761)
Retained earnings (accumulated deficit)	21,489	(544,187)
Total Stockholders' Equity	8,435,532	2,022,818
 TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	 \$ 19,477,932	 \$ 2,951,579

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See Notes to Interim Unaudited Financial Statements

**PACIFIC ALLIANCE CORPORATION****CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months Ended June 30, 2009
Sales:				
Sales-products	\$ 843,815	\$ 764,898	\$ 1,654,432	\$ 1,158,017
Sales-services	5,327,942		10,483,998	
Total Sales	6,171,757	764,898	12,138,430	1,158,017
Cost of Sales:				
Cost of Sales-products	643,433	615,416	1,211,969	907,350
Cost of Sales-services	4,611,669		8,924,758	
Total Cost of Sales	5,255,102	615,416	10,136,727	907,350
Gross Profit	916,655	149,482	2,001,703	250,667
Operating Expenses:				
Selling, General and Administrative Expenses	610,243	125,061	1,202,290	203,334
Total Operating Expenses	610,243	125,061	1,202,290	203,334
Operating Income	306,412	24,421	799,413	47,333
Other Income and expenses:				
Interest and other expenses	122,170	10,000	233,739	20,000
Total Other Income and expenses	122,170	10,000	233,739	20,000
Income before taxes	184,242	14,421	565,674	27,333
Provision for Income taxes	-	-	-	-
Net Income	\$ 184,242	\$ 14,421	\$ 565,674	\$ 27,333
Net Income per share, Basic	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.01
Net Income per share, Fully Diluted	\$ -	\$ 0.01	\$ 0.01	\$ 0.01
Weighted Average Number of Common Shares	18,882,267	2,257,405	18,882,267	2,257,405
	50,530,493	2,257,405	49,212,175	2,257,405



Weighted Average Fully Diluted Common  
Shares

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See Notes to Interim Unaudited Financial Statements

**PACIFIC ALLIANCE CORPORATION****CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)**

	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Cash Flows from Operating Activities:		
Net Income	\$ 565,674	\$ 27,333
Adjustments to Reconcile Net Income to Net Cash From Operations:		
Depreciation	808,871	30,132
(Increase) Decrease in:		
Accounts receivable	(492,559)	(297,106)
Inventory	(927,662)	(384,970)
Prepaid expense and other expenses	(286,487)	-
Increase (Decrease) in:		
Accounts payable and Accrued expenses	710,190	168,753
Tax liabilities	76,082	
Net Cash (Used in) Provided by Operating Activities	454,109	(455,858)
Cash Flow from Investing Activities		
Proceeds from sale of marketable securities	30,560	-
Purchase of property and equipment	(858,305)	(59,279)
Increase to note receivable	(346,230)	-
Net Cash Used In Investing Activities	(1,173,975)	(59,279)
Cash Flow from Financing Activities:		
Line of Credit	(54,815)	-
Proceeds from notes payable	430,296	260,000
Proceeds from notes payable to related parties		100,000
Payments to notes payable to related parties	(227,215)	
Payments to Capital Leases	(1,627,013)	-
Proceeds from preferred stock subscriptions	1,347,037	-
Members distributions prior to the Merger	-	(152,000)
Subscription receivable	343,330	69,405
Net Cash Flow Provided by Financing Activities	211,620	277,405
Net (Decrease) in Cash	(508,246)	(237,732)

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Cash Balance at Beginning of Period	610,088	260,781
Cash Balance at End of Period	\$ 101,842	\$ 23,049

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See Notes to Interim Unaudited Financial Statements

**PACIFIC ALLIANCE CORPORATION**

**CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)**

	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Supplemental Disclosures of Cash Flow Information:		
Taxes Paid	\$ -	\$ -
Interest Paid	\$ 230,476	-
Schedule of Noncash Investing and Financing Activities:		
Issuance of common stocks to acquire Star Leasing, Inc.		
Net tangible assets acquired	\$ 3,844,852	
Property plant and equipment	12,648,644	
Net liabilities assumed	(11,993,496)	
Total Purchase Price	\$ 4,500,000	

**PACIFIC ALLIANCE CORPORATION**

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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**PACIFIC ALLIANCE CORPORATION**

**NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS**

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

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

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

In 1997, a reorganization plan was approved by the Bankruptcy Court, and the remaining creditors of all liabilities subject to compromise, excluding tax claims, were issued 1,458,005 shares of the Company's common stock in March 1998, which corresponds to one share for every dollar of indebtedness. Each share of common stock issued was also accompanied by an A warrant and a B warrant. The warrants expired in June 2002, and none were exercised. The IRS portion of tax liabilities was payable in cash by quarterly installments. Repayment of other taxes is still being negotiated.

On October 30, 2009, the Company completed a "reverse acquisition" transaction with Superior Filtration Products LLC ("Superior"), from which the Company acquired all of the outstanding membership interests of Superior from the Superior Members in exchange for 1,000,000 shares of Pacific Series A Convertible Preferred Stock ( Series A Preferred Stock ). Not earlier than December 1, 2009, the 1,000,000 shares of Series A Preferred Stock are convertible into 606,000,000 pre-split shares of the Company's common stock. Assuming that the shares of Series A Preferred Stock had been converted into Pacific's common stock on the closing date, the Superior Members would own approximately 88.04% of the total shares of Pacific's common stock then issued and outstanding following the Closing. The reverse acquisition was completed pursuant to the Exchange Agreement (the Exchange Agreement ) dated as of June 26, 2009, amended on July 31, 2009. Subsequent to the Merger, the Company continued as the surviving entity and ceased being a shell company as that term is defined in Rule 12b-2 of the Securities Exchange

Act of 1934, as amended ("Exchange Act").

For accounting purposes, Superior is the acquirer in the reverse acquisition transaction, and consequently the assets and liabilities and the historical operations reflected in the financial statements are those of Superior and are recorded at the historical cost basis of Superior. All shares and per share data prior to the acquisition have been restated to reflect the stock issuance as a recapitalization of Superior. Since the reverse acquisition transaction is in substance a recapitalization of the Company and is not a business combination, pro forma information is not presented. Such pro forma statements of operations would be substantially identical to the historical statements of operations of the Company, which are presented in the accompanying consolidated statements of operations.

Superior was organized under the laws of the state of Florida on October 22, 2007 and is headquartered in Ogden, Utah. Superior designs, manufactures and markets a broad range of air filtration products, including (i) high-end High Efficiency Particulate Air (HEPA) filters, with at least 99.97% efficiency rating, and Absolute Isolation Barriers for the creation of synthesized atmospheres to control manufacturing environments and for the absolute control and containment of contaminants and toxic gases in certain manufacturing processes; (ii) mid-range filters for individual and commercial use, which fall under specifications which are categorized by minimum efficiency reporting values (MERV) ratings established by the American Society of Heating Refrigeration and Air Conditioning Engineers ("ASHRAE"); and (iii) standard-grade, low cost filters with efficiency ratings at 35% or better for standard residential and commercial furnace and air conditioning applications.

As a manufacturer of commercial, industrial, and residential air filters, Superior makes a variety of products for removing and controlling airborne

**PACIFIC ALLIANCE CORPORATION**

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1 HISTORY OF OPERATIONS (CONTINUED)**

particulates and gaseous contaminants.

On January 1, 2010, the Company completed the acquisition of Star Leasing, Inc., a North Carolina corporation (Star Leasing). The Company acquired all of the outstanding stock of Star Leasing from Randall Menscer, the sole shareholder of Star Leasing for 15,000,000 million common shares of Pacific. The acquisition was completed pursuant to the Agreement and Plan of Merger that was dated October 1, 2009. The audited financial statements of Star Leasing and proforma statements of operations are incorporated by reference in a Form 8-K filed on June 21, 2010.

Star Leasing Inc. ( Star Leasing ), headquartered in Fayetteville, North Carolina, is a full service trucking, logistical, warehousing and brokerage company. Star Leasing was founded in 1983 and currently has more than 100 employees. It has operations in 48 states, Canada and Mexico. Since its formation, Star Leasing has expanded its business to include full-circle logistical and brokerage services, warehousing, and distribution. Star Leasing provides local delivery for its warehousing and distribution services.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Presentation of Interim Information The financial information at June 30, 2010 and for the three months ended June 30, 2010 and 2009, and for the six months ended June 30, 2010 and 2009 are unaudited, but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information, and with the instructions to Form 10-Q. Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information refer to the Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

The balance sheet as of December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

The results for the three months ended June 30, 2010, and the six months ended June 30, 2010, may not be indicative of results for the year ending December 31, 2010 or any future periods.

Principles of Consolidation and Reclassification: The accompanying consolidated financial statements include the accounts of Pacific Alliance Corporation and its subsidiaries after elimination of all intercompany accounts and transactions. Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statements presentation. Such reclassification had no effect on net losses previously reported. The accompanying consolidated financial statements have been retroactively adjusted to reflect the one-for-twenty reverse stock split effective on December 23, 2009.

Use of estimates: The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

Income Taxes: Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

## **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**



**PACIFIC ALLIANCE CORPORATION**

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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**Income (Loss) Per Common Share:** The Company accounts for income (loss) per share in accordance with ASC 260 (formerly SFAS No. 128), Earnings Per Share. ASC 260 requires that presentation of basic and diluted earnings per share for entities with complex capital structures. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common stockholders by the weighted average number of common stock outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares and excludes dilutive potential common shares outstanding, as their effective is anti-dilutive. Dilutive potential common shares consist primarily of stock warrants and shares issuable under convertible preferred stocks and convertible debt.

**Revenue Recognition:** The Company recognizes revenues from the sale of products, and related costs of products sold, where persuasive evidence of an arrangement exists, delivery has occurred, the seller's price is fixed or determinable and collectibility is reasonably assured. This generally occurs when the customer receives the product or at the time title passes to the customer. Sales incentives and returns are estimated and recognized at the date of shipment based upon historical activity and current agreements with customers. The Company evaluates these estimates on a regular basis and revises them as necessary. Revenue from our logistics Company (freight hauling operations) is recognized upon delivery and acceptance of the delivered product..

**Recent Accounting Pronouncements:** In June 2009, the Financial Accounting Standards Board (FASB) issued ASC Statement No. 105, *the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASC 105). ASC 105 will become the single source authoritative nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related accounting literature. ASC 105 reorganized the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant SEC guidance organized using the same topical structure in separate sections. The Company adopted ASC 105 on July 1, 2009. The adoption of ASC 105 did not have an impact on the Company's financial position or results of operations.

In April, 2009, the FASB issued FASB ASC 810-10-65 (Prior authoritative literature: SFAS No. 164, "Not-for-Profit Entities: Mergers and Acquisitions") which governs the information that a not-for-profit entity should provide in its

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

financial reports about a combination with one or more other not-for-profit entities, businesses or nonprofit activities and sets out the principles and requirements for how a not-for-profit entity should determine whether a combination is in fact a merger or an acquisition. This standard is effective for mergers occurring on or after Dec. 15, 2009 and for acquisitions where the acquisition date is on or after the beginning of the first annual reporting period, beginning on or after Dec. 15, 2009. This standard does not apply to the Company since the Company is considered a for-profit entity.

In June 2009, the FASB ASC 860-10 (Prior authoritative literature: issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140"), which eliminates the concept of a qualifying special-purpose entity ("QSPE"), clarifies and amends the de-recognition criteria for a transfer to be accounted for as a sale, amends and clarifies the unit of account eligible for sale accounting and requires that a transferor initially measure at fair value and recognize all assets obtained and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. This standard is effective for fiscal years beginning after November 15, 2009. The adoption of this codification did not have material impact on the Company's financial position, results of operations and cash flows.

In June 2009, the FASB issued FASB ASC 810-10-65 (Prior authoritative literature: SFAS No. 167, "Amendments to

**PACIFIC ALLIANCE CORPORATION**

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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FASB Interpretation No. 46(R)) which amends the consolidation guidance applicable to a variable interest entity ("VIE"). This standard also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is therefore required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. Previously, the standard required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. This standard is effective for fiscal years beginning after November 15, 2009, and for interim periods within those fiscal years. Early adoption is prohibited. The adoption of this codification did not have material impact on the Company's financial position, results of operations and cash flows.

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, which amends FASB ASC Topic 605, *Revenue Recognition*, and ASU 2009-14, *Certain Arrangements That Include Software Elements*, which amends FASB ASC Topic 985, *Software*. ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect the adoption of ASU 2009-13 or ASU 2009-14 to have a material impact on the Company's results of operations or financial position.

In December 2009, the FASB issued ASU 2009-17, *Improvements to Financial Reporting Involved with Variable Interest Entities*, which codifies SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* issued in June 2009. ASU 2009-17 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity ("VIE"), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. ASU 2009-17 is effective for annual reporting periods beginning after November 15, 2009. The adoption of this codification did not have material impact on the Company's financial position, results of operations and cash flows. In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures About Fair Value Measurements*, which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. ASU 2010-06 is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. The adoption of this codification did not have material impact on the Company's financial position, results of operations and cash flows.

### **NOTE 3 BUSINESS ACQUISITIONS**

#### **Merger with Superior Filtration Products, LLC**

Pursuant to terms of an Exchange Agreement dated June 26, 2009, amended on July 31, 2009, the Company acquired all of the outstanding membership interests of Superior from the Superior Members in exchange for 1,000,000 shares of Pacific Series A Convertible Preferred Stock ( Series A Preferred Stock ). Not earlier than December 1, 2009, the 1,000,000 shares of Series A Preferred Stock are convertible into 30,330,000 post-split (606,600,000 pre-split) shares of the Company's common stock. Assuming that the shares of Series A Preferred Stock had been converted into Pacific's common stock on the closing date, the Superior Members would own approximately 88.04% of the total shares of Pacific's common stock then issued and outstanding following the Closing.

The acquisition is a reverse takeover transaction whereby Superior is identified as the acquirer (accounting parent) of Pacific. The purchase price of Superior is assumed to be equal to its book value and no goodwill is recorded on the transaction. The amount ascribed to the shares issued to the Superior's members represents the net book value of Pacific at date of closing October 30, 2009.

Details of the net liabilities assumed from Pacific at book value at the closing date are as follows:

**PACIFIC ALLIANCE CORPORATION**

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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Current assets	\$	-
Current liabilities:		
Accounts Payable		18,213
Cash overdraft		19,026
Tax liabilities		<u>362,639</u>
		<u>399,878</u>
Net liabilities assumed	\$	(399,878)

**Acquisition of Star Leasing, Inc.**

On January 1, 2010, the Company completed the acquisition of all issued and outstanding common stocks of Star Leasing, Inc. ( "Star Leasing" ) pursuant to the Agreement and Plan of Merger that was dated October 1, 2009. The purchase price for this acquisition was 15,000,000 shares of the Company's common stock, approximately valued at \$0.30 per share, which is the average price of the Company's common stock over the five trading days immediately preceding and two trading days immediately following October 1, 2009.

The acquisition was accounted for as a purchase transaction under FASB ASC No. 805 (Business Combinations), and accordingly, the tangible assets acquired were recorded at their fair value at the date of the acquisition. The results of operations of Star Leasing, Inc. have been included in the Company's consolidated financial statements subsequent to the date of acquisition.

The purchase price was \$4.5 million. Direct transaction costs incurred in connection with the acquisition were immaterial. The purchase price allocations for this acquisition are preliminary and subject to revision as more detailed analyses are completed and additional information on the fair value of the acquired assets and liabilities becomes available. Any change in the fair value of the net assets will change the amount of the purchase price allocable to goodwill and /or other tangible and intangible assets.

The allocation of the purchase price to assets acquired and liabilities assumed is presented in the table that follows:

	\$ 3,844,852
Tangible assets acquired	
	12,648,644
Property and equipment	
Liabilities assumed	(11,993,496)
	\$ 4,500,000
Total purchase price	

### NOTE 3 BUSINESS ACQUISITIONS (CONTINUED)

The following summary, prepared on an unaudited pro forma basis, reflects the condensed consolidated results of operations for the six months ended June 30, 2009 assuming Star Leasing had been acquired at the beginning of the period presented:

	2009
Net revenue	\$ 4,618,203
Net income (loss)	\$ (310,888)
Basic and diluted earnings per share	\$ (0.14)

## PACIFIC ALLIANCE CORPORATION

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4 BALANCE SHEET DETAILS**

The following tables provide details of selected balance sheet items:

		<b>As of June 30, 2010</b>		<b>As of December 31, 2009</b>
<b><u>Accounts Receivable, Net</u></b>				
Accounts Receivable	\$	3,385,118	\$	909,020
Allowance for Bad Debt		<u>-</u>		<u>-</u>
Total Accounts Receivable, Net	\$	<u>3,385,118</u>	\$	<u>909,020</u>
<b><u>Inventory</u></b>				
Raw Materials	\$	1,315,728	\$	783,032
Work-in Process		-		-
Packaging Supplies		16,850		15,161
Finished Goods		<u>860,302</u>		<u>450,875</u>
Total Inventory	\$	<u>2,192,880</u>	\$	<u>1,249,068</u>
<b><u>Property and Equipment, Net</u></b>				
<u>Land and Buildings</u>	\$	4,682,126	\$	-
Automobile, Trailers and Tractors		18,904,750		42,125
Machinery and Equipment		457,911		199,740
Office Furniture and Equipment		455,622		7,218
Tools and Dies		<u>85,420</u>		<u>53,420</u>
		24,585,829		302,503
Accumulated Depreciation		<u>(11,707,697)</u>		<u>(122,450)</u>
Total Property and Equipment, Net	\$	<u>12,878,132</u>	\$	<u>180,053</u>
<b><u>Accrued Liabilities</u></b>				
Accrued payroll and related taxes	\$	442,364	\$	437,059
Other accrued liabilities		<u>177,117</u>		<u>1,203</u>

Total Accrued Liabilities	\$	<u>619,481</u>	\$	<u>438,262</u>
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## Note 5 - Notes Payable

Notes payable consisted of the following as of June 30, 2010

\$1,445,184

Bank credit line of \$1,500,000, collateralized

by accounts receivable of and

commercial property. Interest is payable monthly

at 5.5%. The line of credit is set to expire September 30, 2010

Bank credit line of \$125,000, collateralized by accounts

receivable of the company and commercial property. Interest

125,000

is payable monthly at 5.5%. The line of credit is set to

expire October 10, 2010



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Bank credit line of \$250,000, collateralized by accounts receivable of the company and commercial property.	250,000
Interest is payable monthly at prime plus 6%. The line of credit is set to expire October 20, 2010	
Note payable to a local government in monthly installments of \$1,097 at 6% per annum. The note matures on December 1, 2019.	94,442
Notes payable to banks and finance companies, collateralized by tractors, trailers and other equipment in monthly installments of approximately \$216,000 at varying interest rates, with final maturity dates ranging from 2010 to 2013.	5,679,496
	7,594,122
Less: Current Maturities	(4,066,933)
Long-term debt	\$3,527,189
.	

### **NOTE 6 SUBSCRIPTION RECEIVABLE**

On November 1, 2007, Superior agreed to issue 1,250,000 membership units of Superior (approximately 4% of total membership units) to a service provider (Star Leasing) for a subscription receivable of \$1,250,000. The consideration for the units was payable in kind by and through the freight services provided by the provider. On January 1, 2010, the service provider (Star Leasing) was acquired by the Company and the membership units in Superior were cancelled and returned.

On December 6, 2007, the Company agreed to issue 1,100,000 membership units of the Company (approximately 3.6% of total membership units) for a note receivable of \$250,000. The note carries interest at 8% and due on December 5, 2011. These units were converted to shares of the Companys common stock in 2009.

### **NOTE 7 STOCKHOLDERS EQUITY**

In July 2009, the Company commenced the private placement sale of Series B preferred stock at \$1.00 per share. The private placement was closed in March 2010. As of June 30, 2010, the Company sold and issued 2,622,149 shares of

Series B preferred stock. Each Series B share had one voting right and is convertible into one share of the Company's common stock.

## NOTE 8 NET INCOME (LOSS) PER SHARE

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

		For the three	For the three	For the six	For the six
	months ended	months ended	months ended	months ended	months ended
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2009
Net Income/ per share, Basic		\$	0.01	\$	0.01
Weighted Average Number of Common Shares			18,882,267		2,257,405
.					
Net Income/ per share, Fully Diluted		\$	0.00	\$	0.01
Weighted Average Number of Common Shares			50,530,493		49,212,175
.					

## NOTE 9 CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of accounts receivable and cash deposits. The Company places its cash with high quality financial institutions and limits its credit exposure with any one financial institution. At times, the Company's bank account balances may exceed federally insured limits.

During the six months ended June 30, 2010, sales from three customers amounted to \$7,083,496 and comprised approximately 58% of total product sales. The loss of any of these customers could have a material adverse effect on the

Company. The total amount due from these customers was \$1,056,443.97 as of June 30, 2010. Management believes that accounts receivable from these customers are fully collectible.

#### **NOTE 10 RELATED PARTY TRANSACTIONS**

The Company purchases materials from a supplier, which is owned and controlled by the Company's president. Services and products purchased from this supplier were \$252,799 in the first six months of 2010 and \$139,887 in the first six months of 2009. This Supplier has a note receivable to the Company in the amount of \$346,230.

During 2009, the Company received \$250,000 from issuing a note payable to an affiliate of Pacific's former president and current secretary. The note was unsecured, due in three months from the date of the note, and bore interest at 8% per annum. The note was repaid in October 2009. In consideration of the note payable, the Company also issued a warrant to purchase 25,000 post-split (500,000 pre-split) shares of the Company's common stock. The warrant is exercisable at \$1.00 post-split (\$0.05 pre-split) per share and expires on June 30, 2014.

**PACIFIC ALLIANCE CORPORATION****NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 11 SEGMENT REPORTING**

The Company reviews the operating segments' income to evaluate performance and to allocate resources. Operating companies' income for the reportable segments excludes income taxes. Provision for income taxes is centrally managed at the corporate level and, accordingly, such items are not presented by segment. The segments' accounting policies are the same as those described in the summary of significant accounting policies.

Intersegment transactions are recorded at cost.

Summarized financial information of the Company's results by operating segment is as follows:

	<b>Three Months ended June 30,</b>	
	<b>2010</b>	<b>2009<sup>(1)</sup></b>
Net Revenue:		
Air Filtration Sales	\$ 1,041,863	\$ 764,898
Logistic Services	5,435,437	-
Less: Intersegment sales	305,544	-
	<b>6,171,757</b>	
Net Revenue by Reportable Segment		<b>764,898</b>
All Other Operating Revenue	-	-
	<b>\$ 6,171,757</b>	
Consolidated Net Revenue		<b>\$ 764,898</b>
Operating Income :		
Air Filtration Sales	\$ 78,651	\$ 24,421
	<b>234,572</b>	
Logistic Services		-
Operating Income by Reportable Segment	<b>313,223</b>	<b>24,421</b>
All Other Operating Loss	<b>6,812</b>	-
Consolidated Operating Income	<b>\$ 306,412</b>	<b>\$ 24,421</b>
Net Income :		
Air Filtration Sales	\$ 78,651	\$ 14,421
Logistic Services	<b>112,402</b>	-

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Net Income by Reportable Segments	<b>191,053</b>	<b>14,421</b>
All Other Net Loss	<b>6,811</b>	-
Consolidated Net Income	<b>\$ 184,242</b>	<b>\$ 14,421</b>

**PACIFIC ALLIANCE CORPORATION****NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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	<b>Six Months ended June 30,</b>	
	<b>2010</b>	<b>2009<sup>(1)</sup></b>
Net Revenue:		
Air Filtration Sales	\$ 2,095,582	\$ 1,158,017
Logistic Services	10,653,133 (610,285)	-
Less: Intersegment sales		-
Net Revenue by Reportable Segment	12,138,430	1,158,017
All Other Operating Revenue	-	-
	\$ 12,138,430	
Consolidated Net Revenue		\$ 1,158,017
Operating Income (Loss):		
Air Filtration Sales	\$ 181,884 633,381	\$ 47,333
Logistic Services		-
Operating Income (Loss) by Reportable Segment	815,265	47,333
All Other Operating Loss	(15,852)	-
Consolidated Operating Income (Loss)	\$ 799,413	\$ 47,333
Net Income (Loss):		\$ 27,333
Air Filtration Sales	\$ 181,884	

Logistic Services	<b>399,642</b>	-
Net Income (Loss) by Reportable Segments	<b>581,526</b>	27,333
All Other Net Loss	<b>15,852</b>	-
Consolidated Net Income (Loss)	<b>\$ 565,674</b>	<b>\$ 27,333</b>

	<b>June 30,</b>	
Total Assets:	<b>2010</b>	<b>2009<sup>(1)</sup></b>
Air Filtration Sales	<b>\$ 2,810,994</b>	<b>\$ 1,548,056</b>
Logistic Services	<b><u>16,666,938</u></b>	
	<b>19,477,932</b>	<b>1,548,056</b>
All other segments		-
	<b>\$19,477,932</b>	
Consolidated assets		<b>\$ 1,548,056</b>

<sup>(1)</sup> For periods ended March 2009, the Company had only one segment since the merger of Superior Filtration and Pacific Alliance, and the acquisition of Star leasing took place after that.

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

### *Forward Outlook and Risks*

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

## General

On June 26, 2009, Pacific Alliance Corporation, a Delaware corporation (Pacific or the Company), entered into an Exchange Agreement (the Exchange Agreement) with Superior Filtration Products, LLC, a Florida limited liability Company (Superior), and the members of Superior (Superior Members). The Exchange Agreement and the acquisition agreed to therein, was closed (the Closing) on October 30, 2009 (the Closing Date). In connection with the acquisition of Superior, the three existing directors of Pacific remained as directors and two designees of Superior were appointed as additional directors. The pre-closing president, vice president and treasurer of Pacific resigned as officers of Pacific and a new CEO/President/Treasurer, Steven Clark, was appointed. The pre-closing secretary of Pacific, David Knudson, remained as secretary of Pacific. Effective on the Closing Date, pursuant to the Exchange Agreement, Superior became a wholly-owned subsidiary of Pacific, and the business of Superior became the business of Pacific.

## Overview

Superior was formed in October 2007 and occupied its lease space in Ogden, Utah on December 6, 2007. From January to September 2008, the plant and equipment were placed in service, but Superior did not commence operations until October of 2008. Superior designs, manufactures and markets a broad range of air filtration products, air filters, holding frames, and air filter housings. As a manufacturer of commercial, industrial, and residential air filters, housing and frames, we make a wide variety of products for removing and controlling airborne particulates and gaseous contaminants. We also design and manufacture some of our own production equipment.



Our air filtration products are utilized by many industries, including those associated with commercial and residential heating and ventilation and air conditioning systems ("HVAC" systems), semiconductor manufacturing, ultra-pure materials, food processing, biotechnology, pharmaceuticals, oil and gas, synthetics, nuclear power and nuclear materials processing.

Currently, our revenues primarily are derived from the sale of after-market replacement filters, since air filters are typically placed in equipment designed to last much longer than the filters. Our primary focus has been on high-technology companies in the semiconductor, hospitality, food processing, pharmaceutical and nuclear industries. The filtration systems are the key element in a semiconductor fabrication facility, and most of the advances in air filtration technology in recent years have been driven by the demand from semiconductor manufacturers to have increasingly efficient and dependable filters for their manufacturing facilities.

We have also concentrated on general commercial-grade products, including pre-filters, housings, and replacement filters for standard commercial and industrial HVAC systems. Since we commenced operations, we have experienced positive acceptance from the commercial and industrial air filter markets. We believe our design

and packaging advantages create significant savings to the distributors. We anticipate that demand for our products will increase as we pursue new markets.

Effective January 1, 2010, we closed the acquisition of Star Leasing, Inc. ( Star Leasing ).

Star Leasing has been operating as our subsidiary since January 1, 2010. Star Leasing is in the trucking industry and is a general commodity carrier. Star Leasing was founded in 1983 and currently has more than 100 employees. It has operations in 48 states, Canada and Mexico. Since its formation, Star Leasing has expanded its business to include full-circle logistical and brokerage services, warehousing, and distribution. Star Leasing provides local delivery for its warehousing and distribution services.

### **Factors Affecting Results of Operations**

During the periods included in this report, our operating expenses consisted primarily of the following:

.

Cost of sales, which consists primarily of raw materials, components and production of our products, including applied labor costs and benefits expenses, maintenance, facilities and other operating costs associated with the production of our products;

.

Selling, general and administrative expenses, which consist primarily of salaries, commissions and related benefits paid to our employees and related selling and administrative costs including professional fees;

Depreciation and amortization expenses which result from the depreciation of our property and equipment

### **Results of Operations**

Our management reviews and analyzes several key performance indicators in order to manage our business and assess the quality and potential variability of our revenues and cash flows. These key performance indicators include:

.

Sales revenue, net of returns and trade discounts, which is an indicator of our overall business growth and the success of our sales and marketing efforts;

.

Gross profit, which is an indicator of both competitive pricing pressures and the cost of sales of our products;

Growth in our customer base, which is an indicator of the success of our sales efforts; and

Distribution of revenue across our products offered.

The following summary tables present a comparison of our results of operations for the three months ended June 30, 2010, and the six months ended June 30, 2010 and 2009 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	<b>Three Months Ended June 30, 2010</b>	<b>Three Months Ended June 30, 2009</b>
Net revenues	\$ 6,171,757	\$ 764,898
Cost of revenues	5,255,102	615,416
Gross profit	916,655	149,482
Gross Margin	15%	20%
Selling, general, and administrative expenses	610,243	125,062
Research and development expenses	-0-	75,000
Depreciation and amortization expenses	408,975	15,613
Other income (expense)	(122,170)	(10,000)
Net Income	\$ 184,242	\$ 14,421

	<b>Six Months Ended June 30, 2010</b>	<b>Six Months Ended June 30, 2009</b>
Net revenues	\$ 12,138,430	\$ 1,158,017
Cost of revenues	10,136,727	907,350
Gross profit	2,001,703	250,667
Gross Margin	16%	22%
Selling, general, and administrative expenses	1,202,290	203,334
Research and development expenses	-0-	75,000
Depreciation and amortization expenses	808,871	32,617
Other income (expense)	(233,739)	(20,000)
Net income	\$ 565,674	\$ 27,333

*Three Months Ended June 30, 2010 Compared to June 30, 2009 and the Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009*

Net Revenues. Sales for the three months ended June 30, 2010 were \$6,171,757 compared to sales of \$764,898 for the three months ended June 30, 2009. Sales increased 707% in 2010 over the prior year period due to the acquisition of Star Leasing. Sales for the six months ended June 30, 2010 were \$12,138,430 compared to sales of \$1,158,017 for the six months ended June 30, 2009. Sales increased 948% in 2010 over the prior year period due to the acquisition of Star Leasing.

Cost of Revenues. Cost of revenue for the three months ended June 30, 2010 were \$5,255,102 compared to cost of revenue of \$615,416 for three months ended June 30, 2009. Costs for the three month period increased 754% in 2010 over the prior year period due to increase in revenues from Star Leasing. Cost of revenue for the six months ended June 30, 2010 were \$10,136,727 compared to cost of revenue of \$907,350 for the six months ended June 30, 2009. Costs for the six month period increased 1,017% in 2010 over the prior year period due to increase in revenues from Star Leasing.

Gross Margins. Gross margin for the three months ended June 30, 2010 decreased to 15% compared to 20% from the prior year period. Gross margin for the six months ended June 30, 2010 decreased to 16% compared to 22% from the prior year period. The loss of gross margin is directly related to lower gross margins experienced by Star Leasing. Star Leasing operates at a lower gross margin than Superior due to the capital intense nature of its operation.

**Gross Profit.** Gross profit was \$916,655 for the three months ended June 30, 2010 compared to a gross profit of \$149,482 for the prior year period. Gross profit was \$2,001,703 for the six months ended June 30, 2010 compared to a gross profit of \$250,667 for the prior year period. Gross profit in both periods increased over the prior year periods due to the acquisition of Star Leasing.

**Selling, General, and Administrative Expenses.** SG&A was \$610,243 for the three months ended June 30, 2010 compared with SG&A of \$125,061 for the three months ended June 30, 2009. SG&A was \$1,202,290 for the six months ended June 30, 2010 compared with SG&A of \$203,334 for the six months ended June 30, 2009. SG&A increased due to the acquisition of Star Leasing and the opening of two direct sales offices in New Mexico and Colorado.

**Research and Development Expenses.** Research and development expenses were \$-0- for the three months ended June 30, 2010 and \$ -0- for the six months ended June 30, 2010 compared to \$75,000.00 for the prior year. Research and development costs are incurred as new filter concepts and products are brought to market. We have developed various new products over the last two years and intend to continue this effort into the future.

**Depreciation and Amortization Expenses.** Depreciation was \$408,975 for the three months ended June 30, 2010 compared to \$15,613 for the three months ended June 30, 2009 and depreciation was \$808,871 for the six months ended June 30, 2010 and \$32,617 for the six months ended June 30, 2009. Depreciation expense has a direct correlation to the amount of equipment that is being placed in service and the acquisition of Star Leasing. As new filter making lines and new tractors and trailers are placed in service, we expect depreciation expense will continue to increase.

**Net Income.** The net income for the three months ended June 30, 2010 was \$184,242 compared to a net income of \$14,421 for the three months ended June 30, 2009. The net income for the six months ended June 30, 2010 was \$565,674 compared to a net income of \$27,333 for the six months ended June 30, 2009. Both Star Leasing and Superior Filtration generated income for the quarter and the first six months of the year. Operations were negatively impacted due to start up costs incurred as new filter making lines were placed in service and the two new direct offices. The profitability from the older filter making lines will be offset by the new lines as they are added until the company reaches its normal operating capacity, which management anticipates will be some time in 2011. Profitability overall will also be impacted by the profitability of the two new direct offices. Our New Mexico Office generated a profit for the three months ended June 30, 2010 and we expect both offices to generate a profit by the fourth a quarter of this year.

## **Liquidity and Capital Resources**

Our principal sources of liquidity consist of cash and cash equivalents and payments received from our customers.

We are in the process of expanding our current line of credit to provide additional capital. From time to time, we have obtained additional liquidity to fund our operations through the sale of shares of our equity securities. In assessing our liquidity, our management reviews and analyzes our current cash balances on-hand, short-term investments, accounts receivable, accounts payable, capital expenditure commitments and other obligations. For the company to grow at its current pace we will need to fund our growth through the sale of shares of our equity securities.

### *Cash Flows*

The following table sets forth our consolidated cash flows for the six months ended June 30, 2010 and for the six months ended June 30, 2009.

	2010	2009
Net cash generated (used by) operating activities	\$ 454,110	\$ (455,858)
Net cash generated (used by) investing activities	\$ (1,173,975)	\$ (59,279)
Net cash provided by financing activities	\$ 211,620	\$ 277,405
Net increase (decrease) in cash and cash equivalents during period	\$ (508,246)	\$ (237,732)

**Net Cash Used By Operating Activities.** Cash generated by operating activities was \$454,110 for the six months ended June 30, 2010 compared to \$455,858 used by operating activities for the six months ended June 30, 2009. The primary source of cash from operations relates to an increase in depreciation due to the acquisition of Star Leasing.. As the company continues to expanded we will require additional cash to expand its operations as we did during the first six months of 2009..

**Net Cash Generated (Used By) Investing Activities.** Cash used in investing activities was \$1,173,975 for the six months ended June 30, 2010 compared with \$59,279 used by operations for the six months ended June 30, 2009. The primary use of cash from investing activities was to acquire additional filter making equipment, tractors and trailers.. The company intends to expand its operations over the next two years which will require additional cash to facilitate this growth.

**Net Cash Provided by Financing Activities.** Cash from financing activities was \$211,620 for the six months ended June 30, 2010 compared to \$277,405 for the six months ended June 30, 2009. As the operations continue to expand we will acquire additional capital to expand our operations and will need to raise additional capital.

### *Cash Position, Outstanding Indebtedness, and Future Capital Requirements*

Superior has not compensated certain members of its management. Accordingly, our financial statements do not reflect compensation expenses for such persons. If we had compensated such management on a reasonable basis, our total operating expenses would have been greater, which would have adversely affected the amount of income for the six months ended June 30, 2010 and the size of our income for the six months ended June 30, 2009.

It is difficult to anticipate future levels of income and loss while the company expands its operation. During the second quarter of 2009, Superior opened two direct offices in Albuquerque, New Mexico and Denver, Colorado which reduced earnings from operations by approximately \$76,000 for the year ended December 31, 2009 and \$45,000 for the six months ended June 30, 2010. On September 9, 2009, Superior signed a ten year exclusive distribution and resale agreement with Petersen Incorporated and Energy Solutions, LLC related to its nuclear filtration line of products. We expect that agreement may have a positive impact on operations in by the fourth quarter of 2010.

We anticipate that the execution of our business plan will result in a rapid expansion of our operations, which may place a significant strain on our management, financial and other resources. Our ability to manage the problems associated with the expansion of our business operations will depend, among other things, on our ability to monitor operations, control costs, maintain effective quality control, secure necessary marketing arrangements, expand internal management, technical information and accounting systems and attract, assimilate and retain qualified management and other personnel. If we fail to effectively manage these issues, we may not be profitable in the near future, or ever.

The difficulties in managing these various business issues will be compounded by a number of unique attributes of our anticipated business operations and business strategy. For example, we intend to introduce a new retail air filter product line that relies on various new concepts, a new radial pleat, and a stackable concept which reduces freight costs and places twice the amount of product shelf as the standard product currently being used in the



industry. We are using new filtration media that provides a higher level of filtration with a lower pressure drop which should generate energy savings. Many of these concepts are new to the industry and have only been test marketed in limited environments. Should these and other concepts not perform as expected, our financial condition and the results of our operations could be materially and adversely affected.

We believe we will have the ability to moderate our capital spending as we execute our business plan by the speed at which we expand the operations of the business hiring practices and promotional activities. If we elect to slow the speed, or narrow the focus of our business plan, we will be able to reduce our capital expenditures. Our actual ability to effectuate our proposed business plan will depend on a number of factors, however, including the speed of our expansion, the acceptance of products in the market, our ability to protect our intellectual property, as well as factors over which we may have little or no control, such as regulatory changes, changes in technology or our ability to meet the demand for our product. In addition, actual costs and revenues can vary from the amounts that Superior expects or budgets in its business plan, possibly materially, and those variations are likely to affect our ability to generate a profit or our need for additional financing.

If we need additional funding, and acquire that funding through the issuance of our equity securities, our stockholders may experience dilution in the value per share of their equity securities. The acquisition of funding through the issuance of debt could result in a substantial portion of our cash flow from operations being dedicated to the payment of principal and interest on that indebtedness, and could render us more vulnerable to competitive pressures and economic downturns.

### **Critical Accounting Policies.**

We have adopted a number of critical accounting policies relating to our operation of the manufacture and distribution of air filtration products and our related logistics company. These accounting policies require significant judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies, the underlying judgments and uncertainties regarding our application of those policies to our assets and operations and the likelihood that materially different amounts would be reported under different conditions or using different assumptions, are as follows:

-

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis, and market is based on realizable value.

-

Specific costs related to obtaining patents and trademarks have been capitalized. Patents are amortized over their legal life of 20 years from the date of filing. Costs of trademarks are not amortized, since their lives are indefinite.

-

Depreciation is computed on the straight-line method using estimated useful lives (depending on the type of asset) ranging from 3 to 5 years.

-

Advertising costs are charged to operations when they are incurred.

=

Revenue Recognition: The Company recognizes revenues from the sale of products, and related costs of products sold, where persuasive evidence of an arrangement exists, delivery has occurred, the seller's price is fixed or determinable and collectibility is reasonably assured. This generally occurs when the customer receives the product or at the time title passes to the customer. Sales incentives and returns are estimated and recognized at the date of shipment based upon historical activity and current agreements with customers. The Company evaluates these estimates on a regular basis and revises them as necessary. Revenue from our logistics Company (freight hauling operations) is recognized upon delivery and acceptance of the delivered product..

-

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

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

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

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

### ***Inflation***

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

### **Recent Accounting Pronouncements**

In June 2009, we adopted a new accounting standard for subsequent events, as codified in Accounting Standards Codification ( ASC ) 855-10 (formerly SFAS No. 165, Subsequent Events), which establishes general accounting standards and disclosure for events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This new standard is effective for interim and annual financial periods ending after June 15, 2009 and requires prospective application. The adoption of this new standard had no impact on our consolidated financial statements.

Effective July 1, 2009, we adopted the “FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles” (ASC 105), (formerly, SFAS No. 168, The FASB Accounting Standards Codification™

and the Hierarchy of Generally Accepted Accounting Principles. This new standard establishes the “FASB Accounting Standards Codification<sup>TM</sup>” (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Rules and interpretive releases of the Securities and Exchange Commission (SEC) are also sources of authoritative GAAP for SEC registrants. The Codification now supersedes all previous-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification has now become non-authoritative. Now that the Codification is in effect, all of its content carries the same level of authority. The adoption of this standard did not have an impact on our consolidated financial statements.

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

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

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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any

controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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

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

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

### **ITEM 1A. RISK FACTORS**

For information regarding risk factors, see Part I. Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

During the six month period ended June 30, 2010 we issued shares of our restricted common stock to the following:

Recipient	Number of Shares	Attributed Value <sup>(1)</sup>
Private Placement Participants	Series B Preferred 2,622,149	\$2,616,038
Randal Menscer	Common Shares 15,000,000	\$4,500,000

(1).

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

In connection with the issuance, we relied upon the exemption from securities registration afforded by Rule 506 of Regulation D as promulgated by the SEC under the Securities Act of 1933, as amended (the Securities Act ) and/or Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, or other suitable investors. Transfer was restricted in accordance with the requirements of the Securities Act.

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

None

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

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

Exhibit 31      Certification of Chief Executive and Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

Exhibit 32      Certification of Chief Executive and Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

**SIGNATURE**

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

Dated: August 23, 2010

PACIFIC ALLIANCE CORPORATION

By/s/ Steven Clark

President/Principal Executive and Financial Officer