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TAG IT PACIFIC INC
Form 10-Q/A
April 17, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(AMENDMENT NO. 1)

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

For the quarterly period ended June 30, 2005.

OR

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

For the transition period from _____ to _____.

Commission file number 1-13669

TAG-IT PACIFIC, INC.
(Exact Name of Issuer as Specified in its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

95-4654481
(I.R.S. Employer
Identification No.)

21900 BURBANK BOULEVARD, SUITE 270
WOODLAND HILLS, CALIFORNIA 91367
(Address of Principal Executive Offices)

(818) 444-4100
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, par

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value \$0.001 per share, 18,241,045 shares issued and outstanding as of August 22, 2005.

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EXPLANATORY NOTE

This Report on Form 10-Q/A amends the Quarterly Report on Form 10-Q for Tag-It Pacific, Inc. and our subsidiaries for the quarterly period ended June 30, 2005 and is being filed in order to restate our previously issued consolidated financial statements as of and for the three and six months ended June 30, 2005. The restatement has been made to properly account for revenues in accordance with generally accepted accounting principles in connection with a sale and inventory storage agreement effective in the second quarter of 2005. See Note 2 - Restatement of Financial Statements, to our consolidated financial statements for additional discussion. Except for Items 1, 2 and 4 in Part I and Item 6 of Part II, no other information included in the original Form 10-Q is amended by this Form 10-Q/A.

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TAG-IT PACIFIC, INC.
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CAUTIONARY LEGEND REGARDING FORWARD-LOOKING STATEMENTS

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Some of the information in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended. These forward-looking statements are subject to various risks and uncertainties. The forward-looking statements include, without limitation, statements regarding our future business plans and strategies and our future financial position or results of operations, as well as other statements that are not historical. You can find many of these statements by looking for words like "will", "may", "believes", "expects", "anticipates", "plans" and "estimates" and for similar expressions. Because forward-looking statements involve risks and uncertainties, there are many factors that could cause the actual results to differ materially from those expressed or implied. These include, but are not limited to, economic conditions. This Quarterly Report on Form 10-Q contains important cautionary statements and a discussion of many of the factors that could materially affect the accuracy of Tag-It Pacific's forward-looking statements and such statements and discussions are incorporated herein by reference. Any subsequent written or oral forward-looking statements made by us or any person acting on our behalf are qualified in their entirety by the cautionary statements and factors contained or referred to in this section. We do not intend or undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date of this document or the date on which any subsequent forward-looking statement is made or to reflect the occurrence of unanticipated events.

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PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS. TAG-IT PACIFIC, INC. CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	June 30, 2005	December 31, 2004
	-----	-----
	(as restated, See Note 2)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,962,082	\$ 5,460,662
Trade accounts receivable, net	10,518,984	17,890,044
Trade accounts receivable, related party	3,375,000	4,500,000
Inventories, net	13,565,917	9,305,819
Prepaid expenses and other current assets ...	2,064,950	2,326,245
Deferred income taxes	--	1,000,000
	-----	-----
Total current assets	32,486,933	40,482,770
Property, plant & equipment, net of accumulated depreciation and amortization	9,988,844	9,380,026
Tradenname	4,110,751	4,110,750
Goodwill	450,000	450,000
License rights	198,625	259,875
Due from related parties	578,406	556,550
Other assets	1,012,947	1,207,885

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Total assets	\$ 48,826,506	\$ 56,447,856
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Line of credit	\$ 1,001,309	\$ 614,506
Accounts payable and accrued expenses	14,780,039	7,460,916
Demand notes payable to related parties	664,971	664,971
Current portion of capital lease obligations	844,231	859,799
Current portion of notes payable	180,809	174,975
Note payable	200,000	1,400,000
	-----	-----
Total current liabilities	17,671,359	11,175,167
Capital lease obligations, less current portion	1,049,982	1,220,969
Notes payable, less current portion	1,355,969	1,447,855
Secured convertible promissory notes	12,424,491	12,408,623
	-----	-----
Total liabilities	32,501,801	26,252,614
	-----	-----
Guarantees and Contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, Series A \$0.001 par value; 250,000 shares authorized, no shares issued or outstanding	--	--
Common stock, \$0.001 par value, 30,000,000 shares authorized; 18,241,045 shares issued and outstanding at June 30, 2005; 18,171,301 at December 31, 2004	18,243	18,173
Additional paid-in capital	51,327,873	51,073,402
Accumulated deficit	(35,021,411)	(20,896,333)
	-----	-----
Total stockholders' equity	16,324,705	30,195,242
	-----	-----
Total liabilities and stockholders' equity	\$ 48,826,506	\$ 56,447,856
	=====	=====

See accompanying notes to consolidated financial statements.

TAG-IT PACIFIC, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June	
	2005	2004	2005	2004
	-----	-----	-----	-----
	(as restated, see Note 2)		(as restated see Note 2)	
Net sales	\$ 15,639,646	\$ 14,923,121	\$ 28,694,923	\$ 25,080,000
Cost of goods sold	14,883,526	11,030,867	24,686,980	18,190,000

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Gross profit	756,120	3,892,254	4,007,943	6,88
Selling expenses	655,295	702,482	1,397,629	1,47
General and administrative expenses	11,008,446	2,791,209	14,735,706	5,64
Total operating expenses	11,663,741	3,493,691	16,133,335	7,12
(Loss) income from operations	(10,907,621)	398,563	(12,125,392)	(23
Interest expense, net	268,021	144,355	536,676	33
(Loss) income before income taxes	(11,175,642)	254,208	(12,662,068)	(56
Provision (benefit) for income taxes ...	1,300,996	83,889	1,463,013	(18
Net (loss) income	\$ (12,476,638)	\$ 170,319	\$ (14,125,081)	\$ (38
Less: Preferred stock dividends	--	--	--	3
Net (loss) income to common shareholders	\$ (12,476,638)	\$ 170,319	\$ (14,125,081)	\$ (41
Basic (loss) earnings per share	\$ (0.68)	\$ 0.01	\$ (0.78)	\$
Diluted (loss) earnings per share	\$ (0.68)	\$ 0.01	\$ (0.78)	\$
Weighted average number of common shares outstanding:				
Basic	18,241,045	18,061,778	18,210,406	16,49
Diluted	18,241,045	18,779,239	18,210,406	16,49

See accompanying notes to consolidated financial statements.

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TAG-IT PACIFIC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six months Ended June 30,	
	2005	2004
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:		
Net loss	\$(14,	

(as restated, see Note 2)