

MEHNE GENE C
Form 5
February 02, 2005

FORM 5

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

OMB APPROVAL

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Form 3 Holdings Reported Form 4 Transactions Reported

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person *
MEHNE GENE C

2. Issuer Name and Ticker or Trading Symbol
GERMAN AMERICAN BANCORP [GABC]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)
12/31/2004

Director 10% Owner
 Officer (give title below) Other (specify below)

3563 WEST PORTERSVILLE RD E

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Reporting

(check applicable line)

JASPER, IN 47546

(City) (State) (Zip)

Form Filed by One Reporting Person
 Form Filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
COMMON STOCK				(A) or (D) Price	12,429.0523 (1) (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 2270 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

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	150,000
	5/20/00
Consulting Services valued at \$15,000 Michael Harrop	
	187,500
	8/7/02
Consulting Services valued at \$18,750 PIL S.A.	
	1,250,000
	6/28/02
\$249,871 Northcliffe Consulting	
	1,000,000
	2/24/04
Consulting Services value at \$10,000 William M. Hynes, II	
	250,000
	2/24/04
Consulting Services valued at \$2,500 PIL S.A.	
	100,000
	5/14/04
\$19,978 Total:	
	3,533,578

Shares Issued for Services from 1997 to December 31, 2005

Those persons who have been serving as the Company's officers and directors since 1996 have been issued shares of common stock for services rendered in lieu of cash compensation. Total compensation shares issued to each of the Company's officers and directors is as follows:

Mark A. Scharmann	1,605,776
Dan Price	37,275
David Knudson	2,286,841

Holders

As of April 5, 2006, there were 15,703,800 shares of common stock outstanding and approximately 150 stockholders of record of common stock.

Purchases of Equity Securities by the Small Business Issuer and Affiliated Purchasers

None

Limitation on Directors' Liability, Charter Provisions and Other Matters

Delaware law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breach of directors' fiduciary duty of care. The duty of care requires that, when acting on behalf of the corporation, directors must exercise an informed business judgment based on all material information reasonably available to them. Absent the limitations authorized by Delaware law, directors are accountable to corporations and their stockholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. Delaware law enables corporations to limit available relief to equitable remedies such as injunction or rescission. Our Certificate of Incorporation limits the liability of our directors to us or to our stockholders (in their capacity as directors but not in their capacity as officers) to the fullest extent permitted by Delaware law.

The inclusion of this provision in the Certificate of Incorporation may have the effect of reducing the likelihood of derivative litigation against directors and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited the Company and its stockholders.

Our Bylaws provide indemnification to our officers and directors and certain other persons with respect to certain matters. Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to our directors and officers, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable.

Transfer Agent and Registrar

Our transfer agent is Fidelity Transfer Company, 1800 South West Temple, Suite 301, Salt Lake City, UT 84115; telephone (801) 484-7222.

Dividends

The Company has not paid any cash dividends to date and does not anticipate or contemplate paying dividends in the foreseeable future. It is the present intention of management to utilize all available funds for the development of the Company's business.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Overview

The Company is currently inactive. Our current business plan calls for us to locate and acquire an operating company. Currently, we are a "shell" company conducting virtually no business operation, other than our efforts to seek merger partners or acquisition candidates. We have no full time employees and own no real estate.

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

Our Plan of Operation is further described in Item 1 of this Form 10-KSB.

Liquidity and Capital Resources

As of December 31, 2005, we had no assets. Therefore, we are dependent upon loans and advances from our management and affiliates to fund our expenses pending the completion of a merger or acquisition. As of December 31, 2005, we had total liabilities of \$773,362 of which \$302,523 was for tax liabilities. At December 31, 2005, a total of \$415,389 of our liabilities was for funds loaned to us by management and other stockholders compared to \$334,822 in such loans as of December 31, 2004. At December 31, 2005, a total of \$-0- of our liabilities was for accrued compensation expenses for our officers and directors.

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

We intend to pay for various filing fees and professional fees relating to our reporting obligations and to fund the costs which may arise from seeking new business opportunities.

It is likely that we will be required to raise additional capital in order to attract and potential acquisition partner but there can be no assurance that we will be able to raise any additional capital. It is also likely that any future acquisition will be made through the issuance of shares of our common stock which will result in the dilution of the percentage ownership of the current shareholders.

The auditors' report on our December 31, 2005 financial statements contains a going concern qualification, which provides that our ability to continue as a going concern is dependent upon it raising additional capital. We will continue to be an inactive company unless and until we raise additional capital and acquire an operating company. There can be no assurance that either will occur.

Results of Operations

We have not conducted any active operations since our Confirmation Date and generated no revenue for the year ended December 31, 2005 or the year ended December 31, 2004. We anticipate that we will not generate any revenues until we acquire or merge with another company.

Our total expenses of \$291,770 for the year ended December 31, 2005 compared to \$237,913 for the year ended December 31, 2004. Our total cost of compensation for the year ended December 21, 2005 was \$67,830 compared to \$35,730 for the year ended December 31, 2004. Our total interest costs were \$38,032 for the year ended December 31, 2005 compared to \$41,596 for year ended December 31, 2004.

Critical Accounting Policies

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

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

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

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

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

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

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

Stock-Based Compensation. In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation" -- Transition and Disclosure, which amends SFAS 123. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As permitted by SFAS 123, we have elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation -- an Interpretation of APB Opinion No. 25," and have adopted the disclosure-only provisions of SFAS 123. Accordingly, for financial reporting purposes, compensation cost for stock options granted to employees is measured as the excess, if any, of the estimated fair market value of our stock at the date of the grant over the amount an employee must pay to acquire the stock. Equity instruments issued to nonemployees are accounted for in accordance with FAS 123 and Emerging Issues Task Force ("EITF") Abstract No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services."

Interest Rate Risk

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

Plan of Operation

The Company's current plan of operation is to acquire another operating company. (See "Item 1 - Description of Business - Current Business Plan.")

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

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commitments

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

Inflation

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

Forward Outlook and Risks

This Form 10-KSB 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 Form 10-KSB, 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,” “expect,” “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-KSB. These forward-looking statements represent our judgment as of the date of this Form 10-KSB. 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.

Operating History; No Assets; No Present Source of Revenues. We have been inactive since 1995. We intend to attempt to commence active operations in the future by acquiring a Target Business. Potential investors should be aware that there is only a limited basis upon which to evaluate our prospects for achieving our intended business objectives. We have no resources and have had no revenues since 1995. In addition, we will not generate any revenues (other than investment income) until, at the earliest, the consummation of a Business Combination. Moreover, there can be no assurance that any Target Business will derive any material revenues from its operations or operate on a profitable basis.

Possibility of Total Loss of Investment. An investment in the Company, is an extremely high risk investment, and should not be made unless the investor has no need for current income from the invested funds and unless the investor can afford a total loss of his or her investment.

Absence of Substantive Disclosure Relating to Prospective Business Combinations; Investment in the Company Versus Investment in a Target Business. We have not yet identified a prospective Target Business. Accordingly, investors will have no substantive information concerning consummation of any specific Business Combination in considering a purchase of the Preferred Shares in this offering.

Seeking to Achieve Public Trading Market through Business Combination. While a prospective Target Business may deem a consummation of a Business Combination with the Company desirable for various reasons, a Business Combination may involve the acquisition of, merger or consolidation with, a company which does not need substantial additional capital, but which desires to establish a public trading market for its shares, while avoiding what it may deem to be adverse consequences of undertaking a public offering itself, including time delays, significant expense, loss of voting control and the time and expense incurred to comply with various Federal and state securities laws that regulate initial public offerings. Nonetheless, there can be no assurance that there will be an active trading market for the Company's securities following the completion of a Business Combination or, if a market does develop, as to the market price for the Company's securities.

Uncertain Structure of Business Combination. The structure of a future transaction with a Target Business cannot be determined at the present time and may take, for example, the form of a merger, an exchange of stock or an asset acquisition. We may form one or more subsidiary entities to complete a Business Combination and may, under certain circumstances, distribute the securities of subsidiaries to our stockholders. There can be no assurance that a market would develop for the securities of any subsidiary distributed to stockholders or, if it did, any assurance as to the prices at which such securities might trade. The structure of a Business Combination or the distribution of securities to stockholders may result in taxation of the Company, the Target Business or stockholders.

Unspecified Target Business; Unascertainable Risks. We have not selected an acquisition or other Business Combination as of the date of this Form 10-KSB. Accordingly, there is no basis for prospective investors to evaluate the possible merits or risks of the Target Business or the particular sector of the technology industries in which the Company may ultimately operate. To the extent we effect a Business Combination with a financially unstable company or an entity in its early stage of development or growth (including entities without established records of revenues or income), we will become subject to numerous risks inherent in the business and operations of financially unstable and early stage or potential emerging growth companies. Although management will endeavor to evaluate the risks inherent in a particular Target Business or industry, there can be no assurance that we will properly ascertain or assess all such risks.

Probable Lack of Business Diversification. As a result of our limited resources, in all likelihood, we will have the ability to complete only a single Business Combination. Accordingly, our prospects for success will be entirely dependent upon the future performance of a single business. Unlike certain entities which have the resources to consummate several Business Combinations or entities operating in multiple industries or multiple segments of a single industry, it is highly likely that we will not have the resources to diversify our operations or benefit from the possible spreading of risks or offsetting of losses. Our probable lack of diversification may subject us to numerous economic, competitive and regulatory developments, any or all of which may have a material adverse impact upon the particular industry in which we may operate subsequent to a consummation of a Business Combination. There can be no assurance that the Target Business will prove to be commercially viable.

Conflicts of Interest; Absence of Independent Directors. None of the Company's directors or executive officers are required to commit their full time to the affairs of the Company and it is likely that such persons will not devote a substantial amount of time to the affairs of the Company. Such personnel will have conflicts of interest in allocating management time among various business activities. As a result, the consummation of a Business Combination may require a greater period of time than if the Company's management devoted their full time to the Company's affairs.

Limited Ability to Evaluate Target Business Management; Possibility That Management Will Change. The role of the present management in the operations of a Target Business of the Company following a Business Combination cannot be stated with certainty. Although we intend to scrutinize closely the management of a prospective Target Business in connection with our evaluation of the desirability of effecting a Business Combination with such Target Business, there can be no assurance that our assessment of such management will prove to be correct, especially in light of the possible inexperience of current key personnel of the Company in evaluating certain types of businesses. While it is possible that certain of our directors or executive officers will remain associated in some capacities with the Company following a consummation of a Business Combination, it is unlikely that any of them will devote a substantial portion of their time to the affairs of the Company subsequent thereto. Moreover, there can be no assurance that such personnel will have significant experience or knowledge relating to the operations of the Target Business acquired by the Company. We may also seek to recruit additional personnel to supplement the incumbent management of the Target Business. There can be no assurance that we will successfully recruit additional personnel or that the additional personnel will have the requisite skills, knowledge or experience necessary or desirable to enhance the incumbent management. In addition, there can be no assurance that our future management will have the necessary skills, qualifications or abilities to manage a public company embarking on a program of business development.

Competition. We expect to encounter intense competition from other entities having business objectives similar to our business objectives. Many of these entities, including venture capital partnerships and corporations, shell companies, large industrial and financial institutions, small business investment companies and wealthy individuals, are well-established and have extensive experience in connection with identifying and effecting Business Combinations directly or through affiliates. Many of these competitors possess greater financial, technical, human and other resources than the Company and there can be no assurance that the Company will have the ability to compete successfully. The Company's financial resources will be limited in comparison to those of many of its competitors. Further, such competitors will generally not be required to seek the prior approval of their own stockholders, which may enable them to close a Business Combination more quickly than we can. This inherent competitive limitation may compel us to select certain less attractive Business Combination prospects. There can be no assurance that such prospects will permit us to achieve our business objectives.

Uncertainty of Competitive Environment of Target Business. In the event that we succeed in effecting a Business Combination, we will, in all likelihood, become subject to intense competition from competitors of the Target Business. In particular, certain industries which experience rapid growth frequently attract an increasingly larger number of competitors, including competitors with greater financial, marketing, technical, human and other resources than the initial competitors in the industry. The degree of competition characterizing the industry of any prospective Target Business cannot presently be ascertained. There can be no assurance that, subsequent to a consummation of a Business Combination, we will have the resources to compete in the industry of the Target Business effectively, especially to the extent that the Target Business is in a high-growth industry.

Additional Financing Requirements. We will not generate any revenues until, at the earliest, the consummation of a Business Combination. We cannot ascertain the capital requirements for any particular Business Combination we may consider. We will likely be required to seek additional financing. There can be no assurance that such financing will be available on acceptable terms, or at all. To the extent that additional financing proves to be unavailable when needed to consummate a particular Business Combination, we would, in all likelihood, be compelled to restructure the transaction or abandon that particular Business Combination and seek an alternative Target Business candidate, if possible. In addition, in the event of the consummation of a Business Combination, we may require additional financing to fund the operations or growth of the Target Business. Our failure to secure additional financing could have a material adverse effect on the continued development or growth of the Target Business. We do not have any arrangements with any bank or financial institution to secure additional financing and there can be no assurance that any such arrangement, if required or otherwise sought, would be available on terms deemed to be commercially acceptable and in our best interests.

No Appraisal of Potential Business Combination. We do not anticipate that we will obtain an independent appraisal or valuation of a Target Business. Accordingly, our stockholders will need to rely primarily upon management to evaluate a prospective Business Combination.

No Public Market for Securities. Currently, there is no public market for our common stock and no assurance can be given that an active market will develop or if developed, that it will be sustained. It is unlikely that any market will develop prior to the consummation of a Business Combination. Even if a Business Consumption is completed, there can be no assurance that a trading market for our securities will ever develop.

Risk of Application of Penny Stock Rules. Our common stock is subject to the penny stock rules as adopted by the Securities and Exchange Commission (the “Commission”). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the Commission that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer’s account. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from such rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. If our common stock remains subject to the penny stock rules, investors in the Offering may find it more difficult to sell their shares.

ITEM 7. FINANCIAL STATEMENTS

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[LETTERHEAD]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Pacific Alliance Corporation

We have audited the accompanying balance sheet of Pacific Alliance Corporation (a development stage company) as of December 31, 2005, and the related statements of operations, stockholders' deficit, and cash flows for the year ended December 31, 2005, and from the inception of the development stage on December 21, 1995. The financial statements of Pacific Alliance Corporation (a development stage company) for the year ended December 31, 2004 and from inception of the development stage on December 21, 1995 were audited by other auditors whose report, dated May 23, 2005, expressed an unqualified opinion with a going concern uncertainty. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Alliance Corporation (a development stage company) as of December 31, 2005, and the results of its operations and its cash flows for the year then ended, and from inception of the development stage on December 21, 1995 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company did not generate revenue and has a net capital deficiency and minimal working capital. Those conditions raise substantial doubt about its ability to continue as going concern. Management's plans regarding those matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Spector and Wong, LLP
Pasadena, California
April 26, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of
Pacific Alliance Corporation
Ogden, Utah

We have audited the accompanying balance sheet of Pacific Alliance Corporation as of December 31, 2004, and the related statements of operations, stockholder's equity (deficit) and cash flows for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Alliance Corporation as of December 31, 2004, and the results of its operations and its cash flows for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has no operations, has a stockholders deficit and minimal working capital. Together these factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HJ & Associates, LLC
Salt Lake City, Utah
May 23, 2005

PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEET
December 31, 2005

ASSETS	
Current Assets	
Cash	\$ -
TOTAL ASSETS	\$ -
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Overdraft	\$ 3,360
Accrued Interest	11,712
Other Accrued Expenses	40,379
Notes payable	55,000
Advances from Officer	216,318
Current portion of Tax Liabilities and Related Accrued Interest	302,523
Notes payable to Related Parties	144,070
Total current liabilities	773,362
Long Term Liabilities	
Tax Liabilities	-
TOTAL LIABILITIES	773,362
Stockholders' Deficit	
Common Stock, par value \$0.001, authorized 30,000,000 shares; and 15,480,600 shares issued and outstanding	15,481
Paid-in Capital	3,193,271
Accumulated deficit prior to the developmental stage	(2,632,447)
Accumulated deficit during the developmental stage	(1,349,667)
Total Stockholders Deficit	(773,362)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ -

See notes to financial statements.

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

	For the years ended December 31,		From Inception of the Developmental Stage, December 21, 1995 Through December 31, 2005
	2005	2004	
Operating Expenses:			
Selling, General and Administrative Expenses	\$ 139,687	\$ 196,317	\$ 1,034,939
Tax Penalty and Interest Expense	114,051	-	114,051
Loss on Investment	-	-	6,844
Loan Interest Expense	38,032	41,596	262,908
Net Loss before Extraordinary Item	(291,770)	(237,913)	(1,418,742)
Extraordinary Item, Gain on Forgiveness of Tax debt	-	-	69,075
Net Loss	\$ (291,770)	\$ (237,913)	\$ (1,349,667)
Net Loss per share, Basic and Diluted	\$ (0.02)	\$ (0.02)	
Weighted Average Number of Shares	15,067,600	13,913,621	

See notes to financial statements.

PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

	Common Stock		Additional	Accumulated	Accumulated
	Shares	Amount	Paid-in Capital	Deficit Prior to December 21, 1995	Deficit After December 21, 1995
Balance at December 21, 1995	\$ 2,099,125	\$ 2,099	\$ 884,901	\$ (2,632,447)	-
Conversion of Trade Accounts Payable	1,458,005	1,458	1,456,547	-	-
Issuance of Common Stock for Cash	5,000,000	5,000	20,000	-	-
Issuance of Common Stock for Services	216,000	216	864	-	-
Conversion of Debt	300,000	300	14,700	-	-
Issuance of Common Stock for IRS Claim Reduction	80,078	80	79,998	-	-
Issuance of Common Stock	1,250,000	1,250	248,621	-	-
Conversion of Management Compensation Liability	1,854,292	1,854	183,575	-	-
Issuance of Common Stock for Consulting Services	337,500	338	33,412	-	-
Activity from December 21, 1995 Through December 31, 2002	-	-	-	-	(675,396)
Balance at December 31, 2002	12,595,000	12,595	2,922,618	(2,632,447)	(675,396)
Net Loss for the Year Ended December 31, 2003	-	-	-	-	(144,588)
Balance at December 31, 2003	12,595,000	12,595	2,922,618	(2,632,447)	(819,984)
Issuance of Common Stock for Other Services	1,093,750	1,094	86,406	-	-
Issuance of Common Stock for Accrued Liability for Other Services	156,250	156	12,344	-	-
Issuance of Common Stock for Cash	100,000	100	19,878	-	-
	357,300	357	35,373	-	-

Explanation of Responses:

Issuance of Common Stock for Management Compensation Expense					
Issuance of Common Stock for Accrued Liability for Management Compensation	500,000	500	49,500	-	-
Net Loss for the Year Ended December 31, 2004	-	-	-	-	(237,913)
Balance at December 31, 2004	4,802,300	14,802	3,126,119	(2,632,447)	(1,057,897)
Issuance of Common Stock for Management Compensation Expense	678,300	679	67,152	-	-
Net Loss for the Year Ended December 31, 2005					(291,770)
Balance at December 31, 2005	15,480,600	\$ 15,481	\$ 3,193,271	\$ (2,632,447)	\$ (1,349,667)

See notes to financial statements.

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

	For the years ended December 31,		From Inception of the Developmental Stage, December 21, 1995 Through December 31, 2005
	2005	2004	
Cash Flow from Operating Activities:			
Net Loss	\$ (291,770)	\$ (237,913)	\$ (1,349,667)
Adjustments to Reconcile Net Loss to Net Cash Used in Operations:			
Loss on investments	-	-	6,844
Gain on forgiveness on tax debt	-	-	(69,075)
Stock issued for services	67,831	123,230	426,491
(Increase) Decrease in:			
Accounts receivable	-	-	95,841
Increase (Decrease) in:			
Accrued expenses	133,815	18,479	256,482
Tax liabilities	6,211	-	(73,314)
Net Cash Used in Operating Activities	(83,913)	(96,204)	(706,398)
Cash Flow from Investing Activities			
Purchase of investments	-	-	(30,180)
Proceeds from sale of investments	-	-	23,336
Net Cash Used In Investing Activities	-	-	(6,844)
Cash Flow from Financing Activities:			
Bank overdraft	3,347	12	773
Proceeds from notes payable	35,000	59,986	204,986
Payments of note payable	-	-	(50,000)
Proceeds from notes payable to related parties	54,084	-	54,084
Advance from officer	90,961	43,627	603,646
Repayment of advance from officer	(99,479)	(7,421)	(385,096)
Proceeds from issuance of common stock	-	-	25,000
Proceeds from common stock subscription	-	-	259,849
Net Cash Flow Provided by Financing Activities	83,913	96,204	713,242
Net Increase in Cash	-	-	-
Cash Balance at Beginning of Period	-	-	-
Cash Balance at End of Period	\$ -	\$ -	\$ -

Explanation of Responses:

Supplemental Disclosures of Cash Flow Information

Interest paid	\$	28,819	\$	11,177	\$	178,123
Noncash Investing and Financing:						
Issuance of common stock for subscription	\$	-	\$	19,978	\$	19,978
Common stock issued for prior accrued liability for management services	\$	-	\$	50,000	\$	50,000
Common stock issued for accrued liability other services	\$	-	\$	12,500	\$	12,500

See notes to financial statements.

**PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - NATURE OF BUSINESS

Organization and Going Concern Pacific Alliance Corporation (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 (see note 8). The IRS portion of tax liabilities was payable in cash by quarterly installments (see note 3). Repayment of other taxes is still being negotiated.

The accompanying financial statements have been prepared on a going concern basis, which contemplated the realizations of assets and the satisfaction of liabilities in the normal course of business. As shown in the December 31, 2005 financial statements, the Company did not generate any revenue, and has a net capital deficiency. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time. For the year ended, December 31, 2005, the Company funded its disbursements using loans from an officer and other related parties.

The financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company is no longer operating, and is attempting to locate a new business (operating company), and offer itself as a merger vehicle for a company that may desire to go public through a merger rather than through its own public stock offering.

PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Reclassification: Certain reclassifications have been made to the 2004 financial statements to conform with the 2005 financial statements presentation. Such reclassification had no effect on net losses previously reported.

Use of estimates The preparation of the accompanying 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.

Revenue Recognition The Company currently has no source of revenues. Revenue recognition policies will be determined when principal operations begin.

Cash Equivalents For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Property and Equipment As of December 31, 2005, the Company did not maintain or control any fixed assets.

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.

Net Loss Per Share Net Loss Per Share Basic net loss per share includes no dilution and is computed by dividing net loss available to common stockholders by the weighted average number of common stock outstanding for the period. Diluted net loss per share does not differ from basic net loss per share as the Company did not have dilutive items during the audit period.

PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-employees Equity Transactions The Company accounts for equity instruments issued to non-employees in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 and the Emerging Issues Task Force (EITF) Issue No. 00-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. SFAS No. 123 states that equity instruments that are issued in exchange for the receipt of goods or services should be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Under the guidance in Issue 00-18, the measurement date occurs as of the earlier of (a) the date at which a performance commitment is reached or (b) absent a performance commitment, the date at which the performance necessary to earn the equity instruments is complete (that is, the vesting date).

New Accounting Pronouncements In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes*, and SFAS No.3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles were required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the Statement does not change the transition provisions of any existing accounting pronouncements. Management does not believe adoption of SFAS No. 154 will have a material effect on the Company's financial position, results of operations or cash flows.

PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2004, the FASB issued SFAS No. 153. This statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion; however, included certain exceptions to that principle. This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this statement is issued. Management does not believe the adoption of this statement will have a material effect on the Company's financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123R, *Share Based Payment*. SFAS 123R is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employee* and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award - the requisite service period (usually the vesting period). SFAS 123R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Public entities that file as small business issuers will be required to apply SFAS 123R in the first interim or annual reporting period that begins after December 15, 2005. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

**PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 (“SAB 107”) to give guidance on the implementation of SFAS 123R. The Company will consider SAB 107 during implementation of SFAS 123R. The FASB has also issued SFAS No. 151 and 152, but they will not have relationship to the operations of the Company. Therefore a description and its impact for each on the Company’s operations and financial position have not been disclosed.

NOTE 3 - OTHER ACCRUED EXPENSES

Accrued expenses at December 31, 2005:

Accrued Professional Fees	\$29,173
Accrued Expenses	11,206
Total	\$40,379

NOTE 4 - TAX LIABILITIES

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

The IRS portion of tax liabilities, \$256,620, was payable in quarterly installments of \$ 11,602, final payment due in January 2002. However, no payments have been made since April 2000. The taxes owed to IRS are delinquent and accruing interest at 9% per annum.

As of December 31, 2005, the Company owed \$39,135 to California State Board of Equalization. No payments have been made and the taxes owed to California State Board of Equalization are delinquent and accruing an interest at 9% per annum.

As of December 31, 2005, the Company owed \$6,768 to the County of Los Angeles. No payments have been made and the taxes owed to the County of Los Angeles are delinquent and accruing an interest at 9% per annum.

**PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - SHORT TERM NOTE PAYABLE

During 2005, the Company obtained additional notes payable of \$35,000, from third parties. The notes payable bear interest at 10% per annum and are due on demand. As of December 31, 2005 the balance was \$55,000.

NOTE 6 - NOTES PAYABLE TO RELATED PARTIES

Notes payable to minority shareholders amounted to \$144,070 at December 31, 2005. These notes bear interest at 10% to 12%, and are due on demand.

NOTE 7 - INCOME TAXES

The Company has loss carryforwards available to offset future taxable income. The total loss carryforwards at December 31, 2005 are estimated at approximately \$1,450,000 and expire between 2013 and 2025. Loss carryforwards are limited in accordance with the rules of change in ownership. A valuation allowance is recorded for the full amount of deferred tax assets of approximately \$493,000, which relates to these loss carryforwards, since future profits are indeterminable. The valuation allowance increased by \$102,000 during the year ended December 31, 2005. As of the audit report date, the Company had not filed its corporate income tax returns for the years ended December 31, 2005 and 2004.

NOTE 8 - COMMON STOCK AND WARRANTS

On May 28, 1997, a reorganization plan was approved by the Bankruptcy Court. As a result, existing shares of the Company were reverse split 1-for-6 and pre-bankruptcy creditors were issued 1,458,005 shares of Company's common stock. On November 13, 1997, an additional 5,000,000 shares of common stock were issued (after reverse split) to an officer of the Company in return for proceeds of \$25,000 (\$.005 per share).

In accordance with the reorganization plan, the pre-bankruptcy creditors were also issued 1,458,005 class "A" warrants and 1,458,005 class "B" warrants. The class "A" warrants allowed the purchase of a share of common stock at an exercise price of \$2.50 per share. The "A" warrants expired in June 2000 and none were exercised. The class "B" warrants allowed the purchase of a share of common stock at an exercise price of \$5.00 per share, and the warrants expired in June 2002, and none were exercised.

In May and June 1998, the Company issued 16,000 and 200,000 shares of common stock respectively, for professional services received from non-related individuals. These shares were valued at \$0.005 per share

**PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - COMMON STOCK AND WARRANTS (continued)

In June 1998, the IRS applied a personal tax refund from a former officer of the Company against the Company's tax liability, reducing it by \$80,078. In accordance with an agreement between the management and the former officer, 80,078 shares of common stock were issued to the former officer in exchange for the loss of his personal tax refund.

In February 2000, the Company issued 300,000 shares to an officer for repayment of \$15,000 in advances the officer loaned to the Company and accrued interest.

In May 2000, the Company issued 150,000 shares for repayment of consulting services rendered to the Company from a former officer. These shares were valued at \$0.10 per share.

Pursuant to the provisions of the modified joint plan of reorganization, Pacific Alliance Corporation compensates its management on an hourly basis at \$75 per hour for the time actually devoted to the business of the Company. Payment for services is made through issuance of shares of common stock until such time as the Company's net worth reaches \$350,000. According to the modified joint plan of reorganization, the stock issued for services shall be valued at \$0.10 per share. During the year ended December 31, 2000, the Company issued 1,666,801 shares of common stock for accrued compensation, and in June 2002, the company issued an additional 187,491 shares of common stock.

In October 2001, the Company entered into an agreement under which PIL S.A. would make a capital infusion and bring in new majority shareholders. Total capital to be brought to the Company was to be \$500,000 by October 31, 2001, and an additional \$500,000 by December 31, 2001, at a rate of \$0.20 per share. The right to cancel any subscription under the agreement and have the consideration refunded would have required a breach of the agreement, termination of the agreement by mutual consent, or termination of the agreement by its own terms. At December 31, 2002, 1,250,000 shares of stock were issued to PIL S.A. for the \$249,871 that had been received from PIL S.A. in previous quarters as subscription of shares of common stock. In May 2004, 50,000 shares for an additional subscription of \$9,978 received in 2002 were issued to PIL S.A. In June 2002, PIL S.A. elected to convert a loan with balance of \$10,000 into 50,000 shares of common stock. At June 30, 2004 the 50,000 shares were issued. Both the \$10,000 and \$9,978 were classified as common stock subscription deposit as of December 31, 2002. The agreement with PIL S.A. has been terminated.

In September 2002, the Company issued 187,500 shares of its common stock for consulting services received from a non-related individual. The shares were valued at \$0.10 per share.

**PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - COMMON STOCK AND WARRANTS (continued)

In 2004, the Company issued 857,300 shares of common stock for management services of \$85,730, of which \$50,000 was accrued at December 31, 2003. The shares were valued at \$0.10 per share pursuant to the Modified Joint Plan of Reorganization approved by U.S. Bankruptcy Court.

The Company also issued 1,250,000 shares of common stock in 2004 for consulting fees of \$ 100,000, of which \$12,500 was accrued at December 31, 2003. The shares were valued at \$0.08, the closing market price on the Board's authorization date.

During the year ended December 31, 2005, the Company issued 678,300 shares of common stock for management services of \$67,830, pursuant to the provisions of the Modified Plan of Reorganization approved by the U.S. Bankruptcy Court. Pursuant to the Modified Joint Plan of Reorganization, the stock issued for services was valued at \$0.10 per share.

NOTE 9 - NET LOSS PER SHARE

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

	For the years ended December 31,	
	2005	2004
Numerator:		
Net Loss	\$ (291,770)	\$ (237,913)
Denominator:		
Weighted Average Number of Shares	15,067,600	13,913,621
Net Loss per share-Basic and Diluted	\$ (0.02)	\$ (0.02)

NOTE 10 - RELATED PARTY TRANSACTIONS

An officer of the Company advanced \$90,961 for the year ended December 31, 2005. The Company repaid \$99,479 for the year ended December 31, 2005. These advances bear interest at 10% and have no maturity date. The balance of advances was \$216,318 at December 31, 2005.

During the quarter ended March 31, 2002, the Company passed a resolution to pay rent, office and secretarial services to a stockholder of the Company at a rate of \$500 per month. These charges were retroactive to July 1997, subsequent to the date of approval of the reorganization plan by the Bankruptcy court. As such, \$6,000 was recorded as expense during the years ended December 31, 2005 and 2004.

PACIFIC ALLIANCE CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - RELATED PARTY TRANSACTIONS (continued)

In accordance with the modified joint plan or reorganization, management is compensated on an hourly basis at a rate of \$75 per hour. Such compensation is made through issuance of common stock at \$0.10 per share. Management compensation amounted to \$67,831 and \$35,730 for the years ended December 31, 2005 and 2004, respectively. The number of shares issued for management compensation was 678,300 and 857,300 shares for the years ended December 31, 2005 and 2004, respectively.

NOTE 11 - EXTRAORDINARY ITEM

On December 19, 2000, the Employment Development Department (EDD) accepted an "Offer in Compromise" in the amount of \$7,600 to satisfy in full, all outstanding liabilities of \$76,675 due to the EDD by Pacific Alliance Corporation. The settlement amount was paid in January 2001, and an extraordinary gain of \$69,075 was recognized.

ITEM 8. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On August 2, 2005, Pacific Alliance Corporation (the "Registrant") dismissed HJ & Associates, LLC ("HJ") as its principal accountant to audit its financial statements. HJ audited the Registrant's financial statements for the year ended December 31, 2004, but did not audit the Registrant's financial statements for any other period. HJ's report on the financial statements of the Registrant for the past year did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles. The opinion of HJ on the Auditor's financial statement did contain a going concern qualification.

During the most recent fiscal year ended December 31, 2004 and the subsequent period to and including August 2, 2005, there have been no disagreements between HJ and the Registrant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of HJ, would have caused it to make a reference to the subject matter of any such disagreement with its report.

On July 27, 2005, the Registrant engaged Spector & Wong, LLP ("Spector") as its principal accountant to audit the Registrant's financial statements. Prior to the engagement of Spector, Harold Spector sold his 16,000 shares of common stock, his whole holdings in the Company. During the two most recent fiscal years ended December 31, 2004 and the subsequent period to and including July 27, 2005, the Registrant has not consulted with Spector regarding any of the following: (1) the application of accounting principles to a specified transaction, either completed or proposed; (2) the type of audit opinion that might be rendered on the Registrant's respective financial statements, and neither a written report nor oral advice was provided to the Registrant that Spector concluded was an important factor considered by the Registrant in reaching a decision as to the accounting, auditing or financial reporting issue, or (3) any other matter.

On March 2, 2005 Rose, Snyder & Jacobs resigned as our Independent Accountant effective March 2, 2005. On April 13, 2005, we appointed HJ & Associates, LLC as our independent accountants for the year ending December 31, 2004. Prior to appointing HJ & Associates, LLC as our independent accountant we have not consulted with HJ & Associates, LLC regarding: (i) either the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-B) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-B).

The reports of Rose, Snyder & Jacobs on our financial statements for the fiscal years ended December 31, 2003 and 2002 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles, except for Rose, Snyder & Jacobs issuance of going concern opinions on the financial statements for the fiscal years ending December 31, 2003 and 2002. During the period it served as our independent accountant, there were no disagreements between us and Rose, Snyder & Jacobs on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Rose, Snyder & Jacobs would have caused it to make a reference to the subject matter of the disagreement in connection with its audit report.

ITEM 8A. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of December 31, 2005, the end of the period covered by this annual report, our management concluded its evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this annual report, is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and to reasonably assure that such information is accumulated and communicated to our management, including our President, to allow timely decisions regarding required disclosure.

Our management, including our President, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of the evaluation date, our President concluded that we maintain disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and that such information is accumulated and communicated to our management, including the President, to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

We must disclose under this item any information required to be disclosed in a report on Form 8-K during the fourth quarter of the year covered by this Form 10-KSB, but not reported, whether or not otherwise required by this Form 10-KSB. If disclosure of such information is made under this item, it need not be repeated in a report on Form 8-K which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 10-KSB. No additional disclosure is required under this item.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

A. Identification of Directors and Executive Officers. The current directors and officers of the Company, who will serve until the next annual meeting of shareholders or until their successors are elected or appointed and qualified, are set forth below:

Name	Age	Position
Mark Scharmann	47	President/Director
Dan Price	51	Vice President/Director
David Knudson	46	Secretary/Treasurer/Director

Mark Scharmann. Mr. Scharmann has been a private investor and business consultant since 1981. Mr. Scharmann became involved in the consulting business following his compilation and editing in 1980 of a publication called Digest of Stocks Listed on the Intermountain Stock Exchange. In 1981 he compiled and edited an 800 page publication called the OTC Penny Stock Digest. Mr. Scharmann has rendered consulting services to public and private companies regarding reverse acquisition transactions and other matters. Mr. Scharmann was vice president of OTC Communications, Inc. from March 1984 to January 1987. From 1982 to 1996, he was the president of Royal Oak Resources Corporation. In 1996, Royal Oak Resources completed an acquisition and in connection therewith changed its name to Hitcom Corporation. Mr. Scharmann was the President of Norvex, Inc., a blank check company which completed an acquisition and in connection therewith, changed its name to Capital Title. Mr. Scharmann is a promoter of Nightingale, Inc., a publicly-held corporation blank check company. He has also been an officer and director of several other blind pool companies.

Dan O. Price. Since February 2001, Mr. Price has been working as an Enrollment Counselor for the University of Phoenix. From 1998 to October 2000, Mr. Price worked as an evaluator at Learning Technics, Kirkland, WA and Salt Lake City, UT. From 1993 to 1998, Mr. Price served as Vice-President of Corporate Development for Troika Capital Investment. Prior to that, Mr. Price worked for seven (7) years as the National Sales Director for a business providing electronic bankcard processing and other merchant services. For four (4) years he worked as an Organizational Manager involved in direct sales of educational material, with 50 sales people in the western states under his management. Mr. Price has been in sales and marketing for twenty (20) years and sales management and business management for fifteen (15) years. Mr. Price received his B.A. from Weber State College in 1983. He has served as an officer and director on two (2) small publicly traded companies.

David Knudson. Mr. Knudson has worked as a business consultant since 1985. He earned his B.S. Degree in Finance from Weber State College in 1984 and a B.S. Degree in Information Systems and Technologies at Weber State University in 1996. He has been an officer and director of several small publicly-held "blind-pool" companies. Mr. Knudson was also employed as an adjunct professor and from 1992 to 1996 was employed as a computer information systems consultant at Weber State University. Mr. Knudson is an officer and director of Nightingale, Inc., an inactive publicly-held corporation.

B. Significant Employees. None

C. Family Relationships. There are no family relationships among the Company's officers and directors.

D. Other Involvement in Certain Legal Proceedings. There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any director or executive officer during the last five years.

E. Compliance With Section 16(a). No disclosure is required here.

Code of Ethics

We have not yet adopted a code of ethics that applies to all executive officers, directors and employees of the Company. We intend to do so within the next fiscal year.

Audit Committee Financial Expert

We have not established an audit committee or designated any person as our financial expert. We anticipate that we will not establish an audit committee or designate a financial expert until such time as we complete an acquisition.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the aggregate compensation paid by the Company for services rendered during the last three years to the Company's Chief Executive Officer and to the Company's most highly compensated executive officers other than the CEO, whose annual salary and bonus exceeded \$100,000:

SUMMARY COMPENSATION TABLE						
Annual Compensation						
Name and Principal Position	Year	Salary	Commissions and Bonuses (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)	Options/SAR's (#)
Mark Scharmann (1) President	2005	-0-	-0-	-0-	\$ 17,775	-0-
	2004	-0-	-0-	-0-	\$ 13,425	-0-
	2003	-0-	-0-	-0-	\$ 8,446	-0-

(1) Mr. Scharmann's compensation is paid in shares of Restricted Stock priced at \$.10 per share.

Stock Options

The following table sets forth certain information concerning stock options granted during fiscal 2005 to the named executive officers.

Options Grants in the Year Ended December 31, 2005

Name	Number of Securities Underlying Options Granted (#)	Percentage of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share (\$)	Expiration Date
Mark Scharmann	-0-	-0-	N/A	N/A

The following table sets forth information concerning the number and value of options held at December 31, 2005 by each of the named executive officers. No options held by such executive officers were exercised during 2005.

Option Values at December 31, 2005

Name	Number of Unexercised Options at December 31, 2005 (#)		Value of Unexercised In-the-Money Options At December 31, 2005(\$)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Mark Scharmann	-0-	-0-	N/A	N/A

Compensation of Directors

The Company does not currently compensate its directors for director services to the Company.

Employment Agreements

The Company is currently not a party to any employment agreement. The Plan of Reorganization provides that the Company's officers will be compensated at the rate of \$75.00 per hour for services rendered to the Company. Until such time as the Company's shareholder's equity reaches \$350,000, the Company's officers shall be issued shares of its common stock for services rendered. Such shares shall be valued at \$.10 per share. At such time as the Company effects an acquisition or merger, the Board of Directors, as then constituted, shall set the compensation of officers, directors and employees.

For the year ended December 31, 2005 the Company compensated its officers as follows:

Name	Compensation	Shares Issued
Mark Scharmann	\$ 17,775	177,750
Dan Price	\$ -0-	-0-
David Knudson	\$ 50,055	500,550

The Company's Bankruptcy Plan of Reorganization also provides that upon the completion of an acquisition or merger, the Company's management group will be issued shares of the Company's common stock which amount to 1% of the total shares issued in connection with such acquisition or merger.

Equity Compensation Plan

We are not a party to any equity compensation plan.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**Security Ownership of Certain Beneficial Owners**

The following table sets forth information regarding shares of the Company's common stock beneficially owned as of April 5, 2006 by: (i) each officer and director of the Company; (including and (ii) each person known by the Company to beneficially own 5 percent or more of the outstanding shares of the Company's common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class ⁽¹⁾ Ownership
Mark Scharmann(1) 1661 Lakeview Circle Ogden, UT 84403	5,316,896	33.86%
Dan Price(1) 1661 Lakeview Circle Ogden, UT 84403	38,275	0.24%
David Knudson(1) 1661 Lakeview Circle Ogden, UT 84403	2,164,958	13.79%
Northcliffe Consulting, LLC 12144 Mt. Shadow Road Sandy, UT 84092	1,000,000	6.37%
Curtis Kaminska 1327 E. 6125 S. Ogden, UT 84405	1,012,002	6.44%
PIL S.A. 8 Rue Neuve du Molard Geneva Switzerland	1,350,000	8.60%
All Officers and Directors as a Group (3 Persons)	7,520,129	47.89%
Total Shares Issued	15,703,800	100%

(1)These individuals are the officers and directors of the Company.

Unless otherwise indicated in the footnotes below, the Company has been advised that each person above has sole voting power over the shares indicated above. All of the individuals listed above are officers and directors of the Company.

Security Ownership of Management

See Item 4(a) above.

Changes in Control

We currently have no proposed change of control transaction. The transaction we contemplated with PIL SA has been terminated. We are continuing to discuss business combinations with other Target Businesses. If, and when we complete a Business Combination, it will likely result in a change of control.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

As part of its Plan of Reorganization, the Company issued 5,000,000 shares of its common stock to Troika Capital in consideration of \$25,000 and Troika's agreement to provide an additional \$75,000 in equity or debt funding to pay the Company's tax obligations.

During 1998, Troika Capital loaned \$50,263 to the Company. Such loan is due on demand and bears interest at the rate of 10% per annum.

During 1999, Troika Capital loaned \$56,250 to the Company. The Company repaid \$2,000 during 1999. Such loan is due on demand and bears interest at the rate of 10% per annum.

During 2000, Troika Capital loaned \$154,030 to the Company. The Company repaid \$90,335 during 2000. Such loan is due on demand and bears interest at the rate of 10% per annum.

During 2001, Troika Capital loaned \$89,250 to the Company. The Company repaid \$127,971. Such loan is due on demand and bears interest at the rate of 10% per annum.

During 2002, Troika Capital loaned \$28,215 to the Company. The Company repaid \$57,890 in 2002. Such loan is due on demand and bears interest at the rate of 10% per annum.

During 2003, Troika Capital loaned \$85,550 to the Company. Such loan is due on demand and bears interest at 10% per annum.

During 2004, Troika Capital loaned \$36,206 to the Company. Such loan is due on demand and bears interest at 10% per annum.

During 2005, Troika Capital loaned \$8,517 to the Company. Such loan is due on demand and bears interest at 10% per annum.

The Company's officers and directors were issued shares of the Company's common stock for services rendered during the last three years in the following amounts:

Year	Officer	Shares Issued or Accrued	Value of Services
2005	Mark Scharmann	177,750	\$ 17,775
2005	Dan Price	-0-	\$ -0-
2005	David Knudson	500,550	\$ 50,055
2004	Mark Scharmann	134,250	\$ 13,425.00
2004	Dan Price	-0-	\$ -0-
2004	David Knudson	223,050	\$ 22,305.00
2003	Mark Scharmann	84,460	\$ 8,446.00
2003	Dan Price	-0-	\$ -0-
2003	David Knudson	266,815	\$ 26,681.50

Parents of Company

The only parents of the Company, as defined in Rule 12b-2 of the Exchange Act, are the officers and directors of the Company. For information regarding the share holdings of the Company's officers and directors, see Item 11.

ITEM 13. EXHIBITS

Exhibit Number	Exhibit
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Bylaws (1)
21.1	Subsidiaries of Registrant (None)
<u>31.1</u>	Certification of Chief Executive Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 302 of the Sarbanes-Oxley Act of 2002
<u>31.2</u>	Certification of Principal Financial Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 302 of the Sarbanes-Oxley Act of 2002
<u>32.1</u>	Certification of Chief Executive Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
<u>32.2</u>	Certification of Chief Financial Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002

(1)Previously Filed

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**2005****Independent Auditors**

On July 27, 2005, we appointed Spector & Wong, LLP to audit the consolidated financial statements of the Company for the year ending December 31, 2005 and to report the results of their audit to our Board of Directors. As an inactive Company our Board of Directors serves as our audit committee.

Fees billed to the Company by Spector & Wong, LLP

	2005	2006
(1) Audit Fees	\$ 14,500	\$ 4,000
(2) Tax Fees	\$ -0-	\$ -0-
(3) Other Fees	\$ -0-	\$ -0-

(1) Audit fees billed to the Company by Spector & Wong, LLP were for all professional services performed in connection with the audit of the Company's annual financial statements and review of those financial statements, reviews of our quarterly reports on Form 10-QSB. Audit fees during 2005 also included audit services related to our compliance with Section 404 of the Sarbanes-Oxley Act regarding our internal controls over financial reporting.

(2) Tax services generally include fees for services performed related to tax compliance, consulting services.

(3) Spector & Wong, LLP did not bill the Company for other services during 2006 or 2005.

All audit and non-audit services and fees are pre-approved by the Audit Committee or by the Chairman of the Audit Committee pursuant to delegated authority.

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before Spector & Wong, LLP was engaged by us to render any auditing or permitted non-audit related service, the engagement be:

. approved by our Audit Committee; or

. entered into pursuant to pre-approval policies and procedures established by the Audit Committee, provided the policies and procedures are detailed as to the particular service, the Audit Committee is informed of each service, and such policies and procedures do not include delegation of the Audit Committee's responsibilities to management.

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All of the above services and fees were reviewed and approved by our entire Board of Directors either before or after the respective services were rendered. Our Board of Directors has considered the nature and amount of fees billed by Spector & Wong, LLP and believes that the provision of services for activities unrelated to the audit is compatible with maintaining Spector & Wong, LLP independence.

2005

In 2005 our auditor was HJ & Associates, LLC. Information about fees billed by HJ & Associates, LLC in 2005 is as follows:

Audit Fees. The aggregate fees billed by HJ & Associates, LLC for professional services rendered for the audit of our annual financial statements included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004 and for the review of quarterly financial statements included in our Quarterly Reports on Form 10-QSB for the quarter ending March 31, 2005 were \$5,750.

Audit Related Fees. For the fiscal year ended December 31, 2004, no fees were billed for assurance and related services by HJ & Associates, LLC relating to the resolution of SEC comments which are not reported under the caption "Audit Fees."

Tax Fees. For the fiscal year ended December 31, 2004, the aggregate fees billed by HJ & Associates, LLC for other non-audit professional services, other than those services listed above totaled \$-0-.

We did not use HJ & Associates, LLC for financial information system design and implementation. These services, which include designing or implementing a system that aggregates source data underlying the financial statements or generates information that is significant to our financial statements, are provided internally or by other service providers. We do not engage HJ & Associates, LLC to provide compliance outsourcing services.

Our entire Board of Directors currently acts as our audit committee. Our Board of Directors pre-approves all services provided by our independent auditors. The pre-approval process has just been implemented in response to the new rules, and therefore, the audit committee does not have records of what percentage of the above fees were pre-approved. However, all of the above services and fees were reviewed and approved by the audit committee either before or after the respective services were rendered. The Board of Directors has considered the nature and amount of fees billed by HJ & Associates, LLC and believes that the provision of services for activities unrelated to the audit is compatible with maintaining HJ & Associates, LLC independence.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Pacific Alliance Corporation

Date: May 12, 2006

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

Date: May 12, 2006

By: /s/ David Knudson
Secretary/Treasurer
Principal Financial Officer

In accordance with the Securities Exchange Act, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Mark A. Scharmann	President/Director	May 12, 2006
/s/ Dan Price	Vice President/Director	May 12, 2006
/s/ David Knudson	Secretary/Treasurer Director	May 12, 2006