

PACIFICNET COM INC
Form 10-Q
November 19, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

o **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: 000-24985

PACIFICNET.COM, INC.

(Exact name of small business issuer in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

11-2854355

(I.R.S. Employer Identification No.)

7808 Creekridge Circle, Suite 101

Bloomington, MN

(Address of principal executive offices)

55439

(Zip Code)

Registrant's Telephone Number: 952-829-5888

(Former Name and Address)

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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

There were 8,176,742 shares of the PacificNet.com, Inc. s (the Company) Common Stock outstanding on November 10, 2001.

TABLE OF CONTENTS

PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets as of September 30, 2001 (unaudited) and December 31, 2000

Unaudited Condensed Consolidated Statements of Operations - for each of the three and nine-month periods ended September 30, 2001 and 2000

Unaudited Condensed Consolidated Statements of Cash Flows - for each of the nine-month periods ended September 30, 2001 and 2000

Notes to Condensed Consolidated Financial Statements

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

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

ITEM 5 - OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

PACIFICNET.COM, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands of United States dollars, except par values and share numbers)

	September 30, 2001 (Unaudited)		December 31, 2000	
ASSETS				
Current Assets:				
Cash, including \$500 restricted cash as of September 30, 2001	\$	2,167	\$	4,197
Accounts receivable, net of allowance of \$232 as of September 30, 2001 and \$225 as of December 31, 2000		182		344
Prepaid assets, rental deposits and other current assets		541		769
Total Current Assets		2,890		5,310
Property and Equipment, net		478		692
Capitalized Software Development Costs		261		302
Investments in Affiliated Companies		95		1,241
Other Assets		75		89
Total Assets	\$	3,799	\$	7,634
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts Payable	\$	644	\$	331
Accrued Expenses		120		185
Customer Deposits		211		0
Net Liabilities of Discontinued Operations		-		438
Total Current Liabilities		975		954
Minority Interest in Consolidated Subsidiary		48		179
Stockholders' Equity:				
Common Stock, par value \$0.0001:				
Authorized - 125,000,000 shares Outstanding - 8,187,342 shares as of September 30, 2001 and 7,937,342 shares as of December 31, 2000	\$	1	\$	1
Additional Paid-In Capital		26,769		26,560
Treasury Stock - 10,600 shares as of September 30, 2001		(12)		0
Accumulated Other Comprehensive Loss		(22)		(14)
Accumulated Deficit		(23,960)		(20,046)
Total Stockholders' Equity		2,776		6,501

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Total Liabilities, Minority Interest and Stockholders' Equity	\$	3,799	\$	7,634
--	----	-------	----	-------

The accompanying notes are an integral part of these financial statements.

PACIFICNET.COM, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations

(In thousands of United States dollars, except loss per share and share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues	\$ 1,753	\$ 1,624	\$ 5,554	\$ 2,904
Cost of revenues	(1,452)	(1,352)	(5,103)	(1,585)
Gross Margin	301	272	451	1,319
Selling, General and Administrative expenses	(1,278)	(874)	(3,508)	(1,852)
Loss from operations	(977)	(602)	(3,057)	(533)
Interest Income	33	137	148	261
Loss before losses from affiliated companies and minority interest and discontinued operations	(944)	(465)	(2,909)	(272)
Equity in Losses of Affiliated Companies	(10)	(14)	(35)	(25)
Provision for Impairment Loss of Affiliated Companies	(358)	0	(1,093)	0
Minority Interests	61	(7)	123	(7)
Loss from continuing operations	(1,251)	(486)	(3,914)	(304)
Losses from discontinued operations:				
Creative Master business	0	(13,441)	0	(13,441)
International Trading business	0	(1,248)	0	(2,013)
Net Loss	\$ (1,251)	\$ (15,175)	\$ (3,914)	\$ (15,758)
Basic and Diluted Loss Per Common Share:				
Loss from continuing operations	\$ (0.15)	\$ (0.06)	\$ (0.49)	\$ (0.05)
Net loss from discontinued operations	\$ 0.00	\$ (1.85)	\$ 0.00	\$ (2.36)
Net loss	\$ (0.15)	\$ (1.91)	\$ (0.49)	\$ (2.41)
Weighted average number of shares outstanding:	8,150,475	7,957,969	8,025,053	6,551,362

Edgar Filing: PACIFICNET COM INC - Form 10-Q

The accompanying notes are an integral part of these financial statements.

PACIFICNET.COM, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands of United States dollars)

	Nine months ended September 30,	
	2 0 0 1	2000
Cash Flows Used in Operating activities:		
Net loss	\$(3,914)	\$(15,758)
Adjustments:		
Net loss from discontinued operations	0	15,454
Depreciation	156	68
Amortization	211	0
Expenses settled by issuance of Common Stock	209	0
Minority Interest	(123)	7
Equity in Losses of Affiliated Companies	35	25
Provision for Impairment Loss of Affiliated Companies	1,093	0
Changes in Current Assets and Current Liabilities:		
Accounts Receivable and Other Current Asssets	390	(1,634)
Accounts Payable, Accrued Expenses and Customer Deposits	459	498
Net Cash Used in Continuing Operations	(1,484)	(1,340)
Net Cash Used in Discontinued Operations	(347)	(1,687)
Net Cash Used in Operating Activities	(1,831)	(3,027)
Cash Flows Used in Investing Activities:		
Acquisition of Property and Equipment	(41)	(622)
Acquisition of Affiliate Company interests	0	(3,294)
Cost of Acquisition	0	(320)
Purchase of Treasury Stock	(12)	0
Acquisition of Capitalized Software Development Costs and other assets	(138)	0
Net Cash Used in Investing Activities	(191)	(4,236)
Cash Flows Provided by Financing Activities:		
Proceeds from Issuance of Common Stock	0	9,295
Effect of Exchange Rate Changes on Cash	(8)	(13)
(Decrease) Increase in cash	(2,030)	2,019
Cash, beginning of period	4,197	4,061
Cash, end of period	\$ 2,167	\$ 6,080

The accompanying notes are an integral part of these financial statements.

PACIFICNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in United States dollars unless otherwise stated)

1. BASIS OF PRESENTATION

Interim Financial Statements. The interim financial statements are prepared pursuant to the requirements for reporting on Form 10-Q. The December 31, 2000 balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the annual report of PacificNet.com, Inc. (referred to herein as "PacificNet," "PACT" or the "Company") on Form 10-KSB for the fiscal year ended December 31, 2000. In the opinion of management, the interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of the results for the interim periods presented.

As shown in the accompanying interim financial statements, the Company incurred a net loss for the nine months ended September 30, 2001 of \$3,914,000. Net tangible assets of the Company as of September 30, 2001 were \$2,776,000 which includes \$2,167,000 of cash. Management has instituted cost reduction measures that have reduced the Company's monthly cash expense rate and is pursuing strategic alternatives to its existing operations that it believes will contribute toward achieving profitability. The accompanying interim financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Investments in Affiliated Companies. The Company's investments in PacificNet-NTSC.com Sdn.Bhd and Xmedia Holdings Inc. (Xmedia), affiliated companies for which its ownership equals or exceeds 20% but are not majority-owned or controlled, are accounted for using the equity method. The Company's investment in affiliated companies for which its ownership is less than 20% (APP China Group Limited, Cypress Rise and ABCDEnet.com) are accounted for using the cost method. Under the equity method, the Company's proportionate share of each affiliate's net income or loss and amortization of the Company's net excess investment over its equity in each affiliate's net assets is included in equity in losses of affiliated companies. The Company assesses the need to record impairment losses on its investments when indicators of impairment are present. Indicators of value generally include revenue growth, operating results, cash flows and other measures. Management then determines whether there has been a permanent impairment of value based upon events and circumstances that have occurred since acquisition. Based on a review of indicators of value, the Company recorded a provision for impairment loss of affiliated companies of \$358,000 related to the Company's investments in ABCDEnet.com and Xmedia and \$1,093,000 related to the Company's investments in APP China Group Limited, Cypress Rise, ABCDEnet.com and Xmedia for the three-months and nine-months ended September 30, 2001, respectively. The impairment losses were recorded to state the investment at the estimated recoverable amount. As of September 30, 2001, investment in affiliated companies relates principally to the Company's investment in Xmedia.

Operating Results for Future Periods. These results are not necessarily indicative of the operating results that may be expected for the entire year ending December 31, 2001 and future periods.

Restatement of Historical Financial Statements. The historical financial statements prior to the reverse merger transaction (see note 3 below) have been restated to be those of the accounting acquirer, PacificNet.com LLC (PLLC). Historical stockholders' equity prior to the reverse

Edgar Filing: PACIFICNET COM INC - Form 10-Q

merger has been retroactively restated (a recapitalization) for the equivalent number of shares received in the merger after giving effect to any difference in par value of the issuer's and acquirer's stock with an offset to paid-in-capital.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The adoption of SFAS 141 did not have a significant impact on the Company's financial statements.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which is effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company does not believe that SFAS 142 will have a significant impact on the Company's financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143 (SFAS 143), Accounting for Asset Retirement Obligations , which is effective for financial statements issued for fiscal years beginning after June 15, 2002. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company is currently assessing but has not yet determined the impact of SFAS 143 on its financial position and results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets , which is effective for financial statements issued for fiscal years beginning after December 15, 2001. SFAS 144 requires that (a) impairment losses be recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) impairment losses be measured as the difference between the carrying amount and fair value of the asset. In addition, SFAS 144 retains existing accounting provisions for the presentation of discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). The Company is currently assessing but has not yet determined the impact of SFAS 144 on its financial position and results of operations.

3. BUSINESS COMBINATIONS AND DISPOSITIONS

Acquisition of PacificNet.com LLC. On July 27, 2000, in exchange for all the ownership interests in PLLC, the Company issued 7,166,667 shares of its Common Stock to the former owners of PLLC. This transaction was accounted for as a purchase and treated as a reverse merger since the former owners of PLLC controlled over 80% of the total shares of Common Stock of the Company outstanding immediately following the acquisition on July 27, 2000. The shares issued by the Company in connection with the reverse merger of PLLC are not registered under the Securities Act of 1933, as amended, and are subject to restrictions on transferability for a period of one year from the date of issuance.

Disposition of Creative Master Business. In September 2000, the Company's Board of Directors approved a plan to dispose of its die-cast replica manufacturing business (the Creative Master business). On October 2, 2000, the Company sold the Creative Master business to a management group led by Mr. Carl Tong, former Chief Executive Officer of the Company. As consideration for this business, the management group i) returned 895,765 shares of the Company's Common Stock with a quoted market value of approximately \$4.9 million, ii) assumed all

Edgar Filing: PACIFICNET COM INC - Form 10-Q

indebtedness and obligations of the Company related to the Creative Master business and iii) relinquished any claim with respect to an intercompany balance of \$1.5 million payable by the Company. Revenues related to the Creative Master business were \$10.6 million and \$28.6 million for the three-month and nine-month periods ended September 30, 2000.

Disposition of Laptizen Business - In September 2001, the Board of Directors of the Company approved a plan to dispose of its Laptizen.com Limited (Laptizen) subsidiary. Laptizen is a Hong Kong value added reseller of computer systems. As of September 30, 2001 all activities related to Laptizen had ceased and the Company was in the process of liquidating Laptizen. During the three-month period ended September 30, 2001, the Company recorded provisions for disposal related to Laptizen of \$25,000 and wrote-off associated Laptizen goodwill of \$82,000. Revenue and net loss information related to Laptizen operations is as follows and includes the provisions for disposal and write-off of goodwill:

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues	\$ 1,339,000	\$ 1,215,000	\$ 4,831,000	\$ 1,215,000
Net (loss) income	\$ (182,000)	\$ 9,000	\$ (257,000)	\$ 9,000

Net assets of Lapitzen operations included in continuing operations in the accompanying financial statements were \$34,000 and \$325,000 at September 30, 2001 and December 31, 2000, respectively. Total assets were comprised primarily of inventory, accounts receivable and property and equipment. Total liabilities were comprised primarily of trade payables and accrued expenses. Net assets of Lapitzen operations also include minority interest of \$48,000 and \$179,000 at September 30, 2001 and December 31, 2000, respectively.

Discontinuation of International Trading Group Business. In September 2000, the Company's International Trading Group (ITG) operations, including the North America China Trade Centre and B2B global trading group, were discontinued. The net liabilities and results of operations for ITG are reflected as discontinued operations in the accompanying financial statements. There were no revenues related to ITG operations for the three-month and nine-month periods ended September 30, 2001 and September 30, 2000.

Continuing Operations. At present, the Company solely engages in providing IT consulting services in Hong Kong.

4. NONCASH TRANSACTIONS

For the three month and nine months ended September 30, 2001, the Company issued 100,000 and 250,000 shares of Common Stock with a market value of \$83,000 and \$209,000 to satisfy current liabilities.

5. SUBSEQUENT EVENTS - STATUS OF PROPOSED TRANSACTIONS

China Holley Transaction. On November 6, 2001, the Company and Holley Group Co., Ltd. (China Holley) mutually agreed to terminate the Sale and Purchase Agreement dated July 28, 2001 on the basis that the transaction, if completed, would have violated NASDAQ's shareholder approval rules. Management believes that the mutual termination of this agreement will not have a material adverse effect on the Company's financial position or results of operations.

Lawson Transaction. In a proposed transaction announced in February 2001, the Company and Lawsons InfoTech Corporation have mutually agreed to terminate the related agreement in principle. The mutual termination of this agreement had no effect on the Company's financial position or results of operations.

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

PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These include statements about the Company's expectations, beliefs, intentions or strategies for the future, which are indicated by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "the Company believes," "management believes" and similar words or phrases. The forward-looking statements are based on Company's current expectations and are subject to certain risks, uncertainties and assumptions. The Company's actual results could differ materially from results anticipated in these forward-looking statements. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements.

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2000

Revenues, Cost of Revenues and Gross Margin. Revenues for the three months ended September 30, 2001 were \$1,753,000, an increase of \$129,000 from \$1,624,000 for the three months ended September 30, 2000. Cost of revenues for the three months ended September 30, 2001 were \$1,452,000, an increase of \$100,000 from \$1,352,000 for the three months ended September 30, 2000. Cost of revenues, as a percentage of revenues, was 83% for the three months ended September 30, 2001 compared with 83% for the three months ended September 30, 2000. Gross margin for the three months ended September 30, 2001 was \$301,000, an increase of \$29,000 from \$272,000 for the three months ended September 30, 2000.

Selling, General and Administrative Expenses. Selling, General and Administrative expenses totaled \$1,278,000 for the three months ended September 30, 2001, an increase of \$404,000 from \$874,000 for the three months ended September 30, 2000. The majority of this increase is due to incremental legal and professional fees related to public filings and proposed transactions of the Company (see note 5 to the financial statements) of \$108,000, provisions and goodwill write-off related to the disposal of Laptizen totaling \$107,000, increased provision for obsolete inventory of \$69,000, increased amortization of capitalized software development costs of \$32,000, and increased directors and officers insurance costs of \$24,000 in 2001 over 2000.

Interest Income. Interest income was \$33,000 for the three months ended September 30, 2001, as compared to \$137,000 for the three months ended September 30, 2000. The decrease is due to the lower net cash balances in 2001 over 2000.

Equity in Losses of Affiliated Companies. The Company's equity in losses of affiliated companies totaled \$10,000 for the three months ended September 30, 2001, as compared to losses of \$14,000 for the three months ended September 30, 2000. The loss reflects the Company's 40% equity in losses in PacificNet-NTSC.com Sdn.Bhd, a Malaysian based consulting company and reseller of the Company's products that was acquired in May 2000.

Provision for Impairment Loss of Affiliated Companies. The Company's provision for impairment loss of affiliated companies totaled \$358,000 for the three months ended September 30, 2001 related to the Company's investments in ABCDNet.com and Xmedia. This compares with \$0 for the three months ended September 30, 2000.

Income Taxes. No tax provision has been recorded for the three months ended September 30, 2001, as the result of the cumulative operating loss generated by the Company.

Minority Interests. Minority interests in losses for the three months ended September 30, 2001 totaled \$61,000, compared with a gain of \$7,000 for the same period in the prior year relates to the Laptizen operations that commenced in July 2000.

Edgar Filing: PACIFICNET COM INC - Form 10-Q

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000

Revenues, Cost of Revenues and Gross Margin. Revenues for the nine months ended September 30, 2001 were \$5,554,000, an increase of \$2,650,000 from \$2,904,000 for the nine months ended September 30, 2000. Cost of revenues for the nine months ended September 30, 2001 were \$5,103,000, an increase of \$3,518,000 from \$1,585,000 for the nine months ended September 30, 2000. The majority of increases in revenues and cost of revenues when comparing the nine months ended September 30, 2001 with the comparable 2000 period relates to the operations of Laptizen, which commenced operations in July 2000. Cost of revenues, as a percentage of revenues, was 92% for the nine months ended September 30, 2001 compared with 55% for the nine months ended September 30, 2000. Gross margin for the nine months ended September 30, 2001 was \$451,000, a decrease of \$868,000 from \$1,319,000 for the nine months ended September 30, 2000. The \$868,000 decrease in gross margin was the result of a premium pricing received on consulting projects during the first two quarters of 2000 as compared to 2001 as well as additional costs to complete fixed price services contracts in 2001 over 2000.

Selling, General and Administrative Expenses. Selling, General and Administrative expenses totaled \$3,508,000 for the nine months ended September 30, 2001, an increase of \$1,656,000 from \$1,852,000 for the nine months ended September 30, 2000. The majority of this increase is due to higher business activity levels in 2001 over 2000, increased advertising and publicity costs of \$286,000, incremental legal and professional fees related to the Company's public filings and proposed transactions (See note 5 to the financial statements) of \$172,000, increased Hong Kong premises costs of \$167,000, increased directors and officers insurance costs of \$131,000, provisions and goodwill write-off related to the disposal of Laptizen totaling \$107,000, increased amortization of capitalized software development costs of \$104,000, increased depreciation from acquisitions of property and equipment of \$88,000, and increased provision for obsolete inventory of \$69,000 in 2001 over 2000.

Interest Income. Interest income was \$148,000 for the nine months ended September 30, 2001, as compared to \$261,000 for the nine months ended September 30, 2000. The decrease is due to the lower net cash balances in 2001 as compared to 2000.

Equity in Losses of Affiliated Companies. The Company's equity in losses of affiliated companies totaled \$35,000 for the nine months ended September 30, 2001, as compared to \$25,000 for the nine months ended September 30, 2000. The increase reflects the Company's 40% equity in losses in PacificNet-NTSC.com Sdn.Bhd, a Malaysian based consulting company and reseller of the Company's products that was acquired in May 2000.

Provision for Impairment Loss of Affiliated Companies. The Company's provision for impairment loss of affiliated companies totaled \$1,093,000 for the nine months ended September 30, 2001 related to the Company's investments in APP China Group Limited, Cypress Rise, ABCDEnet.com and Xmedia. This compares to \$0 for the nine months ended September 30, 2000.

Income Taxes. No tax provision has been recorded for the nine months ended September 30, 2001, as the result of the cumulative operating loss generated by the Company.

Minority Interests. Minority interests in losses for the nine months ended September 30, 2001 totaled \$123,000, compared with a gain of \$7,000 for the same period in the prior year relates to the Laptizen operations that commenced in July 2000.

LIQUIDITY AND CAPITAL RESOURCES

Cash. The Company's cash balance decreased by \$2.0 million to \$2.2 million at September 30, 2001, as compared to \$4.2 million at December 31, 2000. Operating activities used \$1.8 million of cash comprised of \$1.5 million for continuing operations and \$347,000 for discontinued operations.

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Working Capital. The Company's working capital decreased \$2.4 million to \$1.9 million at September 30, 2001, as compared to \$4.4 million at December 31, 2000. When compared to balances at December 31, 2000, the decrease in working capital at September 30, 2001 reflects a decrease in cash of \$2,030,000, a decrease in receivables and other current assets of \$390,000 and an increase in current liabilities of \$21,000.

Property and Equipment Additions. For the nine months ended September 30, 2001, additions to property and equipment aggregated \$41,000. The Company does not anticipate material expenditures for additions to property and equipment over the next year.

Issuance of Common Stock. For the nine months ended September 30, 2001, the Company issued 250,000 shares of Common Stock with a market value of \$209,000 to satisfy certain current liabilities.

Investments in Affiliated Companies. As of September 30, 2001, investments in affiliated companies and goodwill had a net carrying value of \$95,000 as compared to \$1,241,000 as of December 31, 2000. The decrease of \$1,146,000 reflects the Company's share of losses of affiliated companies of \$35,000, amortization of \$18,000 and cumulative provisions for impairment losses of \$1,093,000 related to the Company's investments in APP China Group Limited, Cypress Rise, ABCDEnet, and Xmedia.

Cash Needs for the Foreseeable Future. As of September 30, 2001, the Company had approximately \$2.2 million of cash. The Company expects that its cash needs for the foreseeable future will arise primarily from working capital requirements, technology development and capital expenditures. The Company expects that the principal sources of cash will be cash on hand. In the event that additional credit facilities are required, the Company believes that these additional credit facilities can be negotiated at market rates currently in effect. The Company believes that these sources will be adequate to meet anticipated cash requirements for the next twelve months.

Inflation. Inflation has not had a material impact on PacificNet's business in recent years.

Currency Exchange Fluctuations. All of PacificNet's revenues are denominated either in U.S. dollars or Hong Kong dollars, while its expenses are denominated primarily in Hong Kong dollars and Renminbi (RMB), the currency of the People's Republic of China. There can be no assurance that RMB-to-U.S. dollar or Hong Kong dollar-to-U.S. dollar exchange rates will remain stable. Although a devaluation of the Hong Kong dollar or RMB relative to the U.S. dollar would likely reduce PacificNet's expenses (as expressed in U.S. dollars), any material increase in the value of the Hong Kong dollar or RMB relative to the U.S. dollar would increase PacificNet's expenses, and could have a material adverse effect on PacificNet's business, financial condition and results of operations. PacificNet has never engaged in currency hedging operations and has no present intention to do so.

Seasonality and Quarterly Fluctuations. PacificNet has not experienced fluctuations in quarterly revenues from its e-commerce solutions business since inception. The Company believes that its business is not subject to seasonal and quarterly fluctuations. However, since the Company, in its current form of business operations as an Asian IT solutions and consulting company, has only been in existence since July 1999, the Company does not have sufficient operating history to determine whether seasonal and quarterly fluctuations exist within its business lines.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

NONE

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

LIQUIDITY AND CAPITAL RESOURCES

NONE

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

ITEM 5 - OTHER INFORMATION

NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	Description
2.1	Share Exchange Agreement by and among Davin Enterprises, Inc., Carl Tong, Leo Kwok and Acma Strategic Holdings Limited dated December 15, 1997. (1)
2.2	Share Exchange Agreement dated February 17, 2000, between Registrant and holders of membership interests in PacificNet.com LLC. (3)
2.3	Supplement to Share Exchange Agreement dated April 29, 2000, between Registrant and holders of membership interests in PacificNet.com LLC. (3)
2.4	Agreement dated September 30, 2000, among the Company and the "Purchasers" named therein. (4)
2.5	Supplemental Agreement dated October 3, 2000, among the Company and the "Purchasers" named therein. (4)
2.6	Deed of Waiver, dated October 3, 2000, by Creative Master Limited in favor of the Company. (4)
3.1	Certificate of Incorporation, as amended. (3)
3.2	By Laws of the Company. (5)
3.3	Amendment to By Laws of the Company. (2)
4	Specimen Stock Certificate of the Company. (7)
10.1	Form of Indemnification Agreement with officers and directors. (1)
10.2	Amendment to 1998 Stock Option Plan. (6)
10.3	Form of Notice of Stock Option Grant and Stock Option Agreement under the 1998 Stock Option Plan. (3)
10.4	Sub-Lease Agreement LDA-2 dated September 22, 2000. (6)
10.5	Sub-Lease Agreement LDA-3 dated May 8, 2000. (6)
10.6	Agreement dated July 28, 2001 for the sale and purchase of an equity interest in a joint venture in the People's Republic of China with Holley Group Co., Ltd. (7)

(1) Incorporated by reference to the Company's Form SB-2 filed on October 21, 1998.

(2) Incorporated by reference to the Company's Form 10-KSB filed on March 30, 1999.

(3) Incorporated by reference to the Company's Form 8-K filed on August 11, 2000.

(4) Incorporated by reference to the Company's Form 8-K filed on October 17, 2000.

(5) Incorporated by reference to the exhibits of the Company's registration statement (file no. 33-14521-NY).

(6) Incorporated by reference to the Company's Form 10-KSB filed on March 30, 2001.

(7) Incorporated by reference to the Company's Form 10-Q filed on August 10, 2001.

(b) Reports on Form 8-K:

Form 8-K - July 25, 2001 Change in the Company's independent accountants from Arthur Andersen & Co to Deloitte Touche Tohmatsu. The change was recommended and approved by the Company's Audit Committee on July 19, 2001. In addition, for purposes of complying with Nasdaq rules, the Company provided information regarding security ownership of management and certain beneficial owners as of July 25, 2001.

Form 8-K/A - August 24, 2001 The Company provided additional information related to the change in the Company's independent accountants from Arthur Andersen & Co to Deloitte Touche Tohmatsu.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PACIFICNET.COM, INC.

Date: November 19, 2001

By: /s/ DAVID BUSSMANN
David Bussmann
Chairman

Date: November 19, 2001

By: /s/ CHARLES W. MUELLER
Charles W. Mueller
Chief Financial Officer

A summary of the status of the Company's plans that had issued PSUs as of March 31, 2011, and changes during the three months ended March 31, 2011 are presented below:

	Three Months Ended March 31, 2011	
	Number of PSUs	Weighted- Average Grant- Date Fair Value
Beginning Balance	1,255,689	\$ 22.41
Granted	485,554	34.06
Vested	(745,801)	19.91
Forfeited	(38,382)	24.61
Ending Balance	957,060	\$ 30.18

15. EARNINGS PER SHARE

The following table summarizes the number of shares outstanding as well as our basic and diluted earnings per share (in millions, except per share amounts):

Edgar Filing: PACIFICNET COM INC - Form 10-Q

	Three Months Ended March 31,	
	2011	2010
Net earnings attributable to Owens Corning	\$ 24	\$ 48
Weighted-average number of shares outstanding used for basic earnings per share	123.8	126.5
Non-vested restricted and performance shares	1.0	0.7
Options to purchase common stock	0.5	0.3
Weighted-average number of shares outstanding and common equivalent shares used for diluted earnings per share	125.3	127.5
Earnings per common share attributable to Owens Corning common stockholders:		
Basic	\$ 0.19	\$ 0.38
Diluted	\$ 0.19	\$ 0.38

Basic earnings per share is calculated by dividing earnings attributable to Owens Corning by the weighted-average number of shares of the Company's common stock outstanding during the period. Outstanding shares consist of issued shares less treasury stock.

On August 1, 2010, the Company approved a new share buy-back program under which the Company is authorized to repurchase up to 10 million shares of the Company's outstanding common stock (the Repurchase Program). The Repurchase Program authorizes the Company to repurchase shares through open market, privately negotiated, or other transactions. The actual number of shares repurchased will depend on timing, market conditions and other factors and will be at the Company's discretion. As of March 31, 2011, 7.7 million shares were available for repurchase under the Repurchase Program.

For the three months ended March 31, 2011 the number of shares used in the calculation of diluted earnings per share did not include 0.4 million options to purchase common stock, 17.5 million common equivalent shares from Series A Warrants or 7.8 million common equivalent shares from Series B Warrants due to their anti-dilutive effect.

Table of Contents

- 21 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****15. EARNINGS PER SHARE (continued)**

For the three months ended March 31, 2010 the number of shares used in the calculation of diluted earnings per share did not include 2.6 million options to purchase common stock, 17.5 million common equivalent shares from Series A Warrants or 7.8 million common equivalent shares from Series B Warrants due to their anti-dilutive effect.

16. COMPREHENSIVE EARNINGS

The following table presents the comprehensive earnings attributable to Owens Corning (in millions):

	Three Months Ended March 31,	
	2011	2010
Net earnings	\$ 25	\$ 49
Currency translation adjustment	37	(5)
Pension and other postretirement adjustment	-	(1)
Deferred income on hedging	3	(3)
Comprehensive earnings	65	40
Less: Comprehensive earnings attributable to noncontrolling interests	-	1
Comprehensive earnings attributable to Owens Corning	\$ 65	\$ 39

17. FAIR VALUE MEASUREMENT**Items Measured at Fair Value**

The Company classifies and discloses assets and liabilities carried at fair value in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Edgar Filing: PACIFICNET COM INC - Form 10-Q

The following table summarizes the fair values, and levels within the fair value hierarchy in which the fair value measurements fall, for assets and liabilities measured on a recurring basis as of March 31, 2011 (in millions):

	Total Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>				
Cash equivalents	\$ 1	\$ 1	\$ -	\$ -
Derivative assets	10	-	10	-
Total assets	\$ 11	\$ 1	\$ 10	\$ -
<u>Liabilities:</u>				
Derivative liabilities	\$ (3)	\$ -	\$ (3)	\$ -
Total liabilities	\$ (3)	\$ -	\$ (3)	\$ -

Table of Contents

- 22 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****17. FAIR VALUE MEASUREMENT (continued)**

Cash equivalents, by their nature, utilize Level 1 inputs in determining fair value. The Company measures the value of its natural gas hedge contracts and foreign currency forward contracts using Level 2 inputs. The fair value of the Company's natural gas hedges is determined by a mark to market valuation based on forward curves using observable market prices and the fair value of its foreign currency forward contracts is determined using observable market transactions in over-the-counter markets. The fair value of the Company's interest rate swaps is determined by a mark to market valuation based on forward curves observable in the market. A significant portion of the value of the Company's energy supply derivative contract uses Level 3 inputs. The fair value of the Company's energy supply derivative contract is determined by a mark to market valuation based on forward curves and on broker quotes. The value of this contract at March 31, 2011 was less than \$1 million.

The following table provides a rollforward of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in millions):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivatives
December 31, 2010	\$ (1)
Total gain included in net earnings attributable to Owens Corning	1
March 31, 2011	\$ -

Changes in the fair value of this energy supply derivative contract are included in other (income) expenses on the Consolidated Statements of Earnings.

Items Disclosed at Fair ValueLong-term notes receivable

The fair value has been calculated using the expected future cash flows discounted at market interest rates. The Company believes that the carrying amounts reasonably approximate the fair values of long-term notes receivable. Long-term notes receivable were \$51 million as of March 31, 2011.

Long-term debt

Edgar Filing: PACIFICNET COM INC - Form 10-Q

The fair value of the Company's long-term debt has been calculated based on quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities.

As of March 31, 2011, the Company's 6.50% senior notes due 2016 were trading at approximately 108% of par value, the 7.00% senior notes due 2036 were trading at approximately 102% of par value and the 9.00% senior notes due 2019 were trading at approximately 119% of par value.

At March 31, 2011, the Company determined that the book value of the remaining long-term debt instruments approximates market value. This approach, which utilized indicative market rates for a new debt issuance, approximated the fair value of the remaining long-term debt at \$391 million.

Table of Contents

- 23 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

18. INCOME TAXES

Income tax expense for the three months ended March 31, 2011 was \$11 million. Excluding approximately \$9 million of benefit related to the reversal of a valuation allowance in a foreign location and other discrete items in the quarter, the Company's effective tax rate would have been 56 percent. The difference between the first quarter effective tax rate and the statutory rate of 35 percent is primarily attributable to the tax accounting treatment related to various locations which are currently in a loss position in the first quarter 2011.

Income tax expense for the three months ended March 31, 2010 was \$9 million. Excluding charges related to valuation allowances in foreign locations of \$2 million, the Company's effective tax rate would have been 12 percent. The difference between the effective tax rate and the statutory rate of 35 percent is primarily attributable to the level of earnings in the United States, in which there is relatively little income tax expense due to the valuation allowance that existed as of March 31, 2010 against the United States deferred tax assets.

19. ACCOUNTING PRONOUNCEMENTS

There were no accounting standards issued during the quarter that the Company believes would have a material impact on the financial statements.

20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The following Condensed Consolidating Financial Statements present the financial information required with respect to those entities which guarantee certain of the Company's debt. The Condensed Consolidating Financial Statements are presented on the equity method. Under this method, the investments in subsidiaries are recorded at cost and adjusted for the Company's share of the subsidiaries' cumulative results of operations, capital contributions, distributions and other equity changes. The principal elimination entries eliminate investment in subsidiaries and intercompany balances and transactions.

Guarantor and Nonguarantor Financial Statements

The Senior Notes and the Senior Revolving Credit Facility are guaranteed, fully, unconditionally and jointly and severally, by each of Owens Corning's current and future 100% owned material domestic subsidiaries that is a borrower or a guarantor under Owens Corning's Credit Agreement, which permits changes to the named guarantors in certain situations (collectively, the Guarantor Subsidiaries). The remaining subsidiaries have not guaranteed the Senior Notes and the Senior Revolving Credit Facility (collectively, the Nonguarantor Subsidiaries).

Table of Contents

- 24 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF EARNINGS****FOR THE THREE MONTHS ENDED MARCH 31, 2011****(in millions)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	\$ -	\$ 827	\$ 488	\$ (77)	\$ 1,238
COST OF SALES	(8)	725	396	(77)	1,036
Gross margin	8	102	92	-	202
OPERATING EXPENSES					
Marketing and administrative expenses	13	86	36	-	135
Science and technology expenses	-	16	3	-	19
Other expenses, net	(27)	13	1	-	(13)
Total operating expenses	(14)	115	40	-	141
EARNINGS BEFORE INTEREST AND TAXES	22	(13)	52	-	61
Interest expense, net	25	-	-	-	25
EARNINGS BEFORE TAXES	(3)	(13)	52	-	36
Less: Income tax expense (benefit)	(1)	(3)	15	-	11
Equity in net earnings (loss) of subsidiaries	26	37	-	(63)	-
Equity in net earnings (loss) of affiliates	-	(1)	1	-	-
NET EARNINGS	24	26	38	(63)	25
Less: Net earnings attributable to noncontrolling interest	-	-	1	-	1
	\$ 24	\$ 26	\$ 37	\$ (63)	\$ 24

**NET EARNINGS ATTRIBUTABLE TO
OWENS CORNING**

Table of Contents

- 25 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF EARNINGS****FOR THE THREE MONTHS ENDED MARCH 31, 2010****(in millions)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	\$ -	\$ 884	\$ 461	\$ (80)	\$ 1,265
COST OF SALES	(2)	724	387	(80)	1,029
Gross margin	2	160	74	-	236
OPERATING EXPENSES					
Marketing and administrative expenses	22	71	31	-	124
Science and technology expenses	-	15	3	-	18
Charges related to cost reduction actions	-	-	6	-	6
Other expenses, net	(37)	25	17	-	5
Total operating expenses	(15)	111	57	-	153
EARNINGS BEFORE INTEREST AND TAXES	17	49	17	-	83
Interest expense, net	26	-	-	-	26
EARNINGS BEFORE TAXES	(9)	49	17	-	57
Less: Income tax expense (benefit)	-	1	8	-	9
Equity in net earnings (loss) of subsidiaries	57	8	-	(65)	-
Equity in net earnings (loss) of affiliates	-	1	-	-	1
NET EARNINGS	48	57	9	(65)	49
Less: Net earnings attributable to noncontrolling interest	-	-	1	-	1

**NET EARNINGS ATTRIBUTABLE TO
OWENS CORNING**

\$ 48 \$ 57 \$ 8 \$ (65) \$ 48

Table of Contents

- 26 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF MARCH 31, 2011****(in millions)**

ASSETS	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	\$ 45	\$ -	\$ 16	\$ -	\$ 61
Receivables, net	3	412	335	-	750
Due from affiliates	857	1,623	243	(2,723)	-
Inventories	-	370	295	-	665
Assets held for sale - current	-	-	18	-	18
Other current assets	3	83	109	-	195
Total current assets	908	2,488	1,016	(2,723)	1,689
Investment in subsidiaries	5,899	2,352	450	(8,701)	-
Due from affiliates	-	54	960	(1,014)	-
Property, plant and equipment, net	464	1,148	1,195	-	2,807
Goodwill	-	1,068	20	-	1,088
Intangible assets	-	975	481	(365)	1,091
Deferred income taxes	(27)	540	11	-	524
Assets held for sale - non-current	-	-	26	-	26
Other non-current assets	67	75	117	-	259
TOTAL ASSETS	\$ 7,311	\$ 8,700	\$ 4,276	\$ (12,803)	\$ 7,484
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 35	\$ 448	\$ 498	\$ -	\$ 981
Due to affiliates	1,359	298	1,066	(2,723)	-
Short-term debt	-	-	5	-	5
Long-term debt - current portion	-	1	4	-	5
Liabilities held for sale - current	-	-	7	-	7

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Total current liabilities	1,394	747	1,580	(2,723)	998
Long-term debt, net of current portion	1,852	31	36	-	1,919
Due to affiliates	-	960	54	(1,014)	-
Pension plan liability	-	201	107	-	308
Other employee benefits liability	-	275	22	-	297
Deferred income taxes	-	-	72	-	72
Other liabilities	346	137	15	(365)	133
Commitments and contingencies					
OWENS CORNING STOCKHOLDERS EQUITY					
Common stock	1	-	-	-	1
Additional paid in capital	3,887	5,842	1,982	(7,824)	3,887
Accumulated earnings (deficit)	218	507	370	(877)	218
Accumulated other comprehensive deficit	(153)	-	-	-	(153)
Cost of common stock in treasury	(234)	-	-	-	(234)
Total Owens Corning stockholders equity	3,719	6,349	2,352	(8,701)	3,719
Noncontrolling interest	-	-	38	-	38
Total equity	3,719	6,349	2,390	(8,701)	3,757
TOTAL LIABILITIES AND EQUITY	\$ 7,311	\$ 8,700	\$ 4,276	\$ (12,803)	\$ 7,484

Table of Contents

- 27 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF DECEMBER 31, 2010****(in millions)**

ASSETS	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	\$ 3	\$ -	\$ 49	\$ -	\$ 52
Receivables, net	1	229	316	-	546
Due from affiliates	788	1,934	285	(3,007)	-
Inventories	-	369	251	-	620
Assets held for sale - current	-	-	16	-	16
Other current assets	1	83	90	-	174
Total current assets	793	2,615	1,007	(3,007)	1,408
Investment in subsidiaries	5,841	2,230	440	(8,511)	-
Due from affiliates	-	40	924	(964)	-
Property, plant and equipment, net	462	1,145	1,147	-	2,754
Goodwill	-	1,068	20	-	1,088
Intangible assets	-	980	488	(378)	1,090
Deferred income taxes	(28)	535	22	-	529
Assets held for sale - noncurrent	-	-	26	-	26
Other non-current assets	71	79	113	-	263
TOTAL ASSETS	\$ 7,139	\$ 8,692	\$ 4,187	\$ (12,860)	\$ 7,158
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 28	\$ 426	\$ 488	\$ -	\$ 942
Due to affiliates	1,547	347	1,113	(3,007)	-
Short-term debt	-	-	1	-	1
Long-term debt - current portion	-	1	4	-	5
Liabilities held for sale - current	-	-	7	-	7

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Total current liabilities	1,575	774	1,613	(3,007)	955
Long-term debt, net of current portion	1,560	32	37	-	1,629
Due to affiliates		924	40	(964)	-
Pension plan liability	-	265	113	-	378
Other employee benefits liability	-	277	21	-	298
Deferred income taxes	-	-	75	-	75
Other liabilities	356	139	20	(378)	137
OWENS CORNING STOCKHOLDERS EQUITY					
Preferred stock	-	-	-	-	-
Common stock	1	-	-	-	1
Additional paid in capital	3,876	5,796	1,895	(7,691)	3,876
Accumulated earnings (deficit)	194	485	335	(820)	194
Accumulated other comprehensive deficit	(194)	-	-	-	(194)
Cost of common stock in treasury	(229)	-	-	-	(229)
Total Owens Corning stockholders equity	3,648	6,281	2,230	(8,511)	3,648
Noncontrolling interest	-	-	38	-	38
Total equity	3,648	6,281	2,268	(8,511)	3,686
TOTAL LIABILITIES AND EQUITY	\$ 7,139	\$ 8,692	\$ 4,187	\$ (12,860)	\$ 7,158

Table of Contents

- 28 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2011****(in millions)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
NET CASH FLOW (USED FOR) PROVIDED BY OPERATING ACTIVITIES	\$ -	\$ (210)	\$ (3)	\$ -	\$ (213)
NET CASH FLOW (USED FOR) PROVIDED BY INVESTING ACTIVITIES					
Additions to plant and equipment	-	(45)	(46)	-	(91)
Proceeds from the sale of assets or affiliates	-	-	12	-	12
Net cash flow (used for) provided by investing activities	-	(45)	(34)	-	(79)
NET CASH FLOW (USED FOR) PROVIDED BY FINANCING ACTIVITIES					
Proceeds from senior revolving credit facility	432	-	-	-	432
Payments on senior revolving credit facility	(133)	-	-	-	(133)
Payments on long-term debt	-	-	(1)	-	(1)
Net decrease in short-term debt	-	-	4	-	4
Purchases of treasury stock	(10)	-	-	-	(10)
Parent loans and advances	(255)	255	-	-	-
Other	8	-	-	-	8
Net cash flow (used for) provided by financing activities	42	255	3	-	300

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Effect of exchange rate changes on cash	-	-	1	-	1
Net increase (decrease) in cash and cash equivalents	42	-	(33)	-	9
Cash and cash equivalents at beginning of period	3	-	49	-	52
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 45	\$ -	\$ 16	\$ -	\$ 61

Table of Contents

- 29 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2010****(in millions)**

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET CASH FLOW (USED FOR) PROVIDED BY OPERATING ACTIVITIES	\$ -	\$ (82)	\$ 55	\$ -	\$ (27)
NET CASH FLOW (USED FOR) PROVIDED BY INVESTING ACTIVITIES					
Additions to plant and equipment	-	(31)	(32)	-	(63)
Proceeds from the sale of assets or affiliates	-	-	5	-	5
Net cash flow (used for) provided by investing activities	-	(31)	(27)	-	(58)
NET CASH FLOW (USED FOR) PROVIDED BY FINANCING ACTIVITIES					
Payments on long-term debt	-	-	(3)	-	(3)
Net decrease in short-term debt	-	-	(9)	-	(9)
Purchase of treasury stock	(2)	-	-	-	(2)
Parent loans and advances	(126)	126	-	-	-
Net cash flow (used for) provided by financing activities	(128)	126	(12)	-	(14)
Effect of exchange rate changes on cash	-	-	(2)	-	(2)
Net increase (decrease) in cash and cash equivalents	(128)	13	14	-	(101)

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Cash and cash equivalents at beginning of period	538	-	26	-	564
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 410	\$ 13	\$ 40	\$ -	\$ 463

Table of Contents

- 30 -

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

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Owens Corning, our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying Notes thereto contained in this report. Unless the context requires otherwise, the terms Owens Corning, Company, we and our in this report refer to Owens Corning.

GENERAL

Owens Corning is a leading global producer of glass fiber reinforcements and other materials for composites and of residential and commercial building materials. The Company's business operations fall within two reportable segments, Composites and Building Materials. Composites includes our Reinforcements and Downstream businesses. Building Materials includes our Insulation and Roofing businesses. Through these lines of business, we manufacture and sell products worldwide. We maintain leading market positions in many of our major product categories.

EXECUTIVE OVERVIEW

We generated \$61 million in EBIT for the three months ended March 31, 2011 despite continued weakness in many of our end markets. The diversity of our portfolio of businesses served us well. Our Composites segment continued its strong performance on improved utilization of production capacity and higher selling prices. Despite weak U.S. markets in our Building Materials segment, we were able to sustain strong profitability in our Roofing business and our Insulation business continued to benefit from 2010 price increases.

In our Composites segment, EBIT improved by more than 50% from the first quarter 2010 as a result of strong production leverage and continued pricing momentum. The sequential improvement in price that began in late 2009 has returned prices across our key product groups to levels seen prior to the 2008 global economic downturn.

In our Building Materials segment, our Roofing business continued to perform well and delivered EBIT of \$77 million despite continued weak markets. In our Insulation business, a decrease in lagged housing starts and costs associated with the launch of EcoTouch more than offset our 2010 pricing actions.

We maintained a strong balance sheet with ample liquidity. Due to the normal seasonality of our business, we typically have negative cash flow from operations in the first half of the year. During the first quarter 2011, we used \$213 million in cash flow from operating activities. This was the result of normal working capital increases during the first quarter of the year and a \$78 million contribution to fund our pension plans, in line with our expectations.

In the first quarter 2011, we entered into a \$250 million accounts receivable securitization facility which provides additional liquidity, diversifies funding sources and reduces borrowing costs. The accounts receivable securitization facility provides liquidity in addition to our \$800 million senior revolving facility, on which we had \$489 million available as of March 31, 2011.

RESULTS OF OPERATIONS**Consolidated Results (in millions)**

	Three Months Ended March 31,	
	2011	2010
Net sales	\$ 1,238	\$ 1,265
Gross margin	\$ 202	\$ 236
<i>% of net sales</i>	<i>16%</i>	<i>19%</i>
Charges related to cost reduction actions	\$ -	\$ 6
Earnings before interest and taxes	\$ 61	\$ 83

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Interest expense, net	\$	25	\$	26
Income tax expense	\$	11	\$	9
Net earnings attributable to Owens Corning	\$	24	\$	48

Table of Contents

- 31 -

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

The Consolidated Results discussion below provides a summary of our results and the trends affecting our business, and should be read in conjunction with the more detailed Segment Results discussion that follows.

NET SALES

First quarter 2011 net sales decreased from the same period in 2010 mainly due to lower sales volumes in our Building Materials segment, particularly our Roofing business.

GROSS MARGIN

The decrease in gross margin in the first quarter 2011 as compared to the first quarter 2010 was primarily the result of a decrease in margins in our Roofing business, which was partially offset by improvements in our Composites segment.

CHARGES RELATED TO COST REDUCTION ACTIONS

There were no charges taken in 2011 as a result of cost reduction actions. The 2010 charges were related to actions we took to balance our global Composites capacity as part of our continuing review of our manufacturing network.

EARNINGS BEFORE INTEREST AND TAXES

In addition to the items noted above, year-over-year comparability of earnings before interest and taxes were impacted by an \$11 million increase in marketing and administrative expenses, of which, the biggest driver is an increase in stock-based compensation. Stock-based compensation is dependent upon our stock price, which was significantly higher at March 31, 2011 than March 31, 2010. The change in other (income) expenses primarily relates to the resolution of an acquisition liability, a gain on the sale of certain precious metals used in production tooling, and foreign currency gains recorded during the first quarter 2011.

INTEREST EXPENSE, NET

Interest expense in 2011 was consistent with that in 2010, as lower borrowing levels were offset by higher average borrowing rates.

INCOME TAX EXPENSE

We estimate that the effective tax rate for the full year 2011 will be 28 percent. This is lower than our statutory rate of 35 percent due to the benefit of lower foreign tax rates and various tax planning initiatives. The effective tax rate for the three months ended March 31, 2011 was 31 percent.

Adjusted Earnings Before Interest and Taxes (Adjusted EBIT)

Adjusted EBIT excludes certain significant items that management does not allocate to our segment results because it believes they are not a result of the Company's current operations. Adjusted EBIT is used internally by the Company for various purposes, including reporting results of operations to the Board of Directors of the Company, analysis of performance and related employee compensation measures. Although management believes that these adjustments result in a measure that provides it a useful representation of our operational performance, the adjusted measure should not be considered in isolation or as a substitute for net earnings attributable to Owens Corning as prepared in accordance with accounting principles generally accepted in the United States.

Adjusting items are shown in the table below (in millions):

	Three Months Ended March 31,	
	2011	2010
Charges related to cost reduction actions and related items	\$ -	\$ (13)
Acquisition integration and transaction costs	-	(1)
Total adjusting items	\$ -	\$ (14)

Table of Contents

- 32 -

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

The reconciliation from net earnings attributable to Owens Corning to Adjusted EBIT is shown in the table below (in millions):

	Three Months Ended March 31,	
	2011	2010
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 24	\$ 48
Less: Net earnings attributable to noncontrolling interests	1	1
NET EARNINGS	25	49
Equity in net earnings of affiliates	-	1
Income tax expense	11	9
EARNINGS BEFORE TAXES	36	57
Interest expense, net	25	26
EARNINGS BEFORE INTEREST AND TAXES	61	83
Less: adjusting items from above	-	(14)
ADJUSTED EBIT	\$ 61	\$ 97

Segment Results

Earnings before interest and taxes (EBIT) by segment consists of net sales less related costs and expenses and are presented on a basis that is used internally for evaluating segment performance. Certain items, such as general corporate expenses or income and certain other expense or income items, are excluded from the internal evaluation of segment performance. Accordingly, these items are not reflected in EBIT for our reportable segments and are included in the Corporate, Other and Eliminations category, which is presented following the discussion of our reportable segments.

Composites

The table below provides a summary of net sales, EBIT and depreciation and amortization expense for the Composites segment (in millions):

	Three Months Ended March 31,	
	2011	2010
Net sales	\$ 492	\$ 463
<i>% change from prior year</i>	<i>6%</i>	<i>34%</i>
EBIT	\$ 48	\$ 31
<i>EBIT as a % of net sales</i>	<i>10%</i>	<i>7%</i>
Depreciation and amortization expense	\$ 34	\$ 27

NET SALES

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Net sales increased during the three months ended March 31, 2011 compared to the same period in 2010. More than half of the increase in net sales was the result of higher selling prices during 2011 compared to the same period in 2010. The upward trend in selling prices that began in the fourth quarter 2009 continued during the first quarter of 2011. As a result, selling prices of our key product groups within our Reinforcements business have returned to levels seen prior to the 2008 global economic downturn. Favorable currency translation and favorable product mix each accounted for about one-third of the increase in 2011 sales as compared to 2010. These impacts were partially offset by lower sales volumes, primarily in Asia Pacific, in first quarter 2011 as compared to the same period in 2010.

Table of Contents

- 33 -

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

EBIT for the first quarter of 2011 increased more than 50 percent from the same period in 2010. Higher selling prices and production leverage each had about the same positive impact on EBIT. These were partially offset by material and energy inflation costs, as well as increases in our selling, general and administrative expenses. Start up and other additional operating costs at various facilities were partially offset by resolution of an acquisition liability.

OUTLOOK

We believe that demand in this segment will grow as global industrial demand increases. However, the rate and extent of the market growth is expected to vary among products, end-use markets and geographic regions. Our new Reinforcements facility in China has begun operations and is expected contribute to segment profitability in the second quarter of 2011. In addition, we are positioned to complete an expansion of our Reinforcements facility in Russia by the end of 2011.

Building Materials

The table below provides a summary of net sales, EBIT and depreciation and amortization expense (in millions) for the Building Materials segment and our businesses within this segment. Prior period amounts have been recast to reflect the inclusion of the Construction Services and Building Materials Europe businesses within Insulation. Other consists of Masonry Products.

	Three Months Ended March 31,	
	2011	2010
Net sales		
Insulation	\$ 290	\$ 302
Roofing	496	530
Other	-	15
Total Building Materials	\$ 786	\$ 847
<i>% change from prior year</i>	<i>-7%</i>	<i>11%</i>
EBIT		
Insulation	\$ (47)	\$ (36)
Roofing	77	128
Other	-	(5)
Total Building Materials	\$ 30	\$ 87
<i>EBIT as a % of net sales</i>	<i>4%</i>	<i>10%</i>
Depreciation and amortization expense		
Insulation	\$ 29	\$ 30
Roofing	10	10
Total Building Materials	\$ 39	\$ 40

NET SALES

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Net sales in our Building Materials segment were lower in the first quarter 2011 compared to the same period in 2010. Most of this decrease was related to lower sales volumes within our Roofing business, but was also impacted by the fourth quarter 2010 divestiture of our United States Masonry Products business and lower sales in our Insulation business.

In our Roofing business, lower sales volumes accounted for approximately three-fourths of the decrease in net sales during the quarter. First quarter 2011 volumes were lower than first quarter 2010 as a result of heavier customer restocking activity in first quarter 2010. The remaining decrease in net sales between the first quarter 2011 and first quarter 2010 was due to lower selling prices which more than offset favorable product mix.

Table of Contents

- 34 -

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

In our Insulation business, net sales in the first quarter 2011 were lower than the same period in 2010 due to lower sales volumes that were partially offset by higher selling prices. We continue to see lower sales volumes given the state of the current U.S. housing market. Pricing actions taken in the United States in the second half of 2010 resulted in higher selling prices in the first quarter 2011 as compared to the first quarter 2010. Our Insulation business includes a diverse portfolio with a geographic mix of United States, Canada, Asia Pacific and Latin America, a market mix of residential, commercial, industrial and other markets, and a channel mix of retail, contractor and distribution.

EBIT

EBIT for our Building Materials segment decreased in the current year primarily as a result of lower EBIT in our Roofing business.

In our Roofing business, approximately three-fourths of the decrease in EBIT for the first quarter 2011 compared to first quarter 2010 was due to lower unit margins. Lower selling prices and raw material inflation including asphalt, negatively impacted first quarter 2011 unit margins compared to the first quarter 2010. The remaining decrease in EBIT was due to lower sales volumes as described above.

In our Insulation business, EBIT was down for the first quarter 2011 as compared to the same period in 2010. Increases in United States selling prices were more than offset by the impact of lower sales volumes and costs associated with the launch of EcoTouch during the three months ended March 31, 2011.

OUTLOOK

We expect overall demand weakness to continue through at least the first half 2011, as the timing and pace of any recovery of the United States housing market in 2011 remains uncertain.

In our Roofing business, we have sustained significant margin improvements over recent years through price realization and gains in manufacturing productivity and material efficiencies. We expect that these margin improvements will continue to drive profitability despite weak demand. Uncertainties that may impact our Roofing gross margins include competitive pricing pressure and the cost and availability of raw materials, particularly asphalt.

In our Insulation business, we believe the geographic, product, and channel mix of our portfolio will help moderate the impact of continued demand-driven weakness associated with new construction in 2011. Should the recovery of new construction be sooner and faster than anticipated, we are prepared to respond to increased demand by bringing additional production capacity back on-line. Conversely, we are prepared to take further actions to reduce our production if further weakening occurs.

Corporate, Other and Eliminations

The table below provides a summary of EBIT and depreciation and amortization expense for the Corporate, Other and Eliminations category (in millions):

	Three Months Ended March 31,	
	2011	2010
Charges related to cost reduction actions and related items	\$ -	\$ (13)
Acquisition integration and transaction costs	-	(1)
General corporate expense and other	(17)	(21)

Edgar Filing: PACIFICNET COM INC - Form 10-Q

EBIT	\$ (17)	\$ (35)
Depreciation and amortization	\$ 7	\$ 13

Table of Contents

- 35 -

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

The increase in EBIT during the first quarter 2011 compared to the first quarter 2010 was the result of no cost reduction actions during the three months ended March 31, 2011. General corporate expense and other decreased from the first quarter 2010 to first quarter 2011. Gain from the sale of precious metal used in production tooling and foreign currency gains were partially offset by increases in stock-based compensation expense during the first quarter 2011 compared to first quarter 2010. Stock-based compensation expense is dependent upon our stock price, which was significantly higher at March 31, 2011 than March 31, 2010.

LIQUIDITY, CAPITAL RESOURCES AND OTHER RELATED MATTERS**Liquidity**

We have an \$800 million senior revolving credit facility, which does not mature until May of 2014 and a \$250 million receivables securitization facility, which serve as our primary sources of liquidity. During 2010, we repaid the \$600 million term loan and refinanced the prior senior revolving credit facility. The receivables securitization facility was established on March 31, 2011 and will mature on March 30, 2012. We have no other significant debt maturities before 2014. As of March 31, 2011, we had \$489 million available on the senior revolving credit facility. As of March 31, 2011, we had \$1.9 billion of total debt and cash-on-hand is \$61 million.

We expect that our cash on hand, coupled with future cash flows from operations and other available sources of liquidity, including our senior revolving credit and receivables securitization facilities, will provide ample liquidity to allow us to meet our cash requirements. Our anticipated uses of cash include capital expenditures, working capital needs, pension contributions, meeting financial obligations and reducing outstanding amounts under the senior credit facility. We have an outstanding share repurchase authorization and will evaluate and consider repurchasing shares of our common stock as well as strategic acquisitions, divestitures, joint ventures and other transactions to create stockholder value and enhance financial performance. Such transactions may require cash expenditures beyond current sources of liquidity or generate proceeds.

While the economic environment has improved, we are closely monitoring the potential impact of changes in the operating conditions of our customers on our operating results. To date, changes in the operating conditions of our customers have not had a material adverse impact on our operating results; however, it is possible that we could experience material losses in the future if current economic conditions continue or worsen.

The credit agreement applicable to our senior revolving credit facility and the receivables securitization facility contain various covenants that we believe are usual and customary for agreements of these types. The senior revolving credit facility includes a maximum allowed leverage ratio and a minimum required interest expense coverage ratio. We were well within compliance with these covenants as of March 31, 2011.

Cash Flows

The following table presents a summary of our cash balance and cash flows (in millions):

	Three Months Ended March 31,	
	2011	2010
Cash balance	\$ 61	\$ 463
Cash used for operating activities	\$ (213)	\$ (27)
Cash used for investing activities	\$ (79)	\$ (58)
Cash provided by (used for) financing activities	\$ 300	\$ (14)
Unused committed credit lines	\$ 489	\$ 948

Edgar Filing: PACIFICNET COM INC - Form 10-Q

Operating activities: We used \$213 million of cash from operations in the first quarter of 2011 compared to \$27 million in the same period in 2010. We increased our investment in working capital during the first quarter of 2011 over the first

Table of Contents

- 36 -

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

quarter of 2010 primarily due to anticipated inventory needs and planned facility downtime. Our pension contributions in the first quarter 2011 were \$70 million more than our contributions in the first quarter 2010, which also increased the cash used from operations during the first quarter 2011.

Investing activities: The increase in cash flow used for investing activities in the three months ended March 31, 2011 compared to the first three months in 2010 was the result of greater additions to plant and equipment.

Financing activities: The increase in cash provided by financing activities for the three months ended March 31, 2011 compared to the first three months of 2010 was primarily due to net borrowings we made on our senior revolving credit facility in the first quarter 2011.

2011 Investments

Capital Expenditures: The Company will continue a balanced approach to the use of its cash flow. Operational cash flow will be used to fund the Company's growth and innovation. Capital expenditures, excluding purchases of precious metals, in 2011 are expected to be greater than those in 2010, and more than depreciation and amortization expense. The Company will also continue to evaluate projects and acquisitions that provide opportunities for growth in our businesses, and invest in them when they meet our strategic and financial criteria.

Tax Net Operating Losses

Upon emergence and subsequent distribution of contingent stock and cash in January 2007, we generated a significant United States federal tax net operating loss of approximately \$3.0 billion. As of March 31, 2011, our federal tax net operating losses remaining were \$2.4 billion. Our net operating losses are subject to the limitations imposed under section 382 of the Internal Revenue Code. These limits are triggered when a change in control occurs, and are computed based upon several variable factors including the share price of the Company's common stock on the date of the change in control. A change in control is generally defined as a cumulative change of 50% or more in the ownership positions of certain stockholders during a rolling three year period. Our initial three year period for measuring an ownership change started at October 31, 2006.

In addition to the United States net operating losses described above, we have net operating losses in various foreign jurisdictions, which totaled \$552 million as of December 31, 2010. Our ability to utilize these net operating losses may be limited as a result of certain events, such as insufficient future taxable income prior to expiration of the net operating losses. Should we determine that it is likely that our recorded net operating loss benefits are not realizable, we would be required to reduce the net operating loss tax benefits reflected on our Consolidated Financial Statements to the net realizable amount by establishing an accounting valuation allowance and recording a corresponding charge to current earnings. To date, we have recorded valuation allowances against certain of these deferred tax assets.

Pension Contributions

The Company has several defined benefit pension plans. The Company made cash contributions of approximately \$78 million and \$8 million to the plans during the three months ended March 31, 2011 and 2010, respectively. The Company expects to contribute \$114 million in cash to its global pension plans during 2011. Actual contributions to the plans may change as a result of a variety of factors, including changes in laws that impact funding requirements. The ultimate cash flow impact to the Company, if any, of the pension plan liability and the timing of any such impact will depend on numerous variables, including future changes in actuarial assumptions, legislative changes to pension funding laws, and market conditions.

Derivatives

To mitigate some of the near-term volatility in our earnings and cash flows, we use financial and derivative instruments to hedge certain exposures, principally currency- and energy-related. Our current hedging practice is to hedge a variable percentage of certain energy and energy-related exposures. Our policy is to hedge up to 75% of our total forecasted natural gas exposures for the next two months, up to 50% for the following four months, and lesser amounts for the remaining periods. We currently have hedged a portion of our exposures for the next 15 months. Going forward, the results of our hedging practice could be positive, neutral or negative in any period depending on price changes in the

hedged exposures, and will tend to mitigate near-term volatility in the exposures hedged. The practice is neither intended nor expected to mitigate longer term exposures.

Table of Contents

- 37 -

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

Fair Value Measurement

Items Measured at Fair Value

The Company classifies and discloses assets and liabilities carried at fair value in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Off Balance Sheet Arrangements

The Company has entered into limited off balance sheet arrangements, as defined under Securities and Exchange Commission rules, in the ordinary course of business. These arrangements include a limited amount of unrecorded contingent payment obligations under acquisition purchase agreements which are not material. The Company does not believe these arrangements will have a material effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

In the normal course of business, we enter into contractual obligations to make payments to third parties. During the three months ended March 31, 2011, there were no material changes to such contractual obligations outside the ordinary course of our business.

SAFETY

Working safely is a condition of employment at Owens Corning. We believe this organization-wide expectation provides for a safer work environment for employees, improves our manufacturing processes, reduces our costs and enhances our reputation. Furthermore, striving to be a world-class leader in safety provides a platform for all employees to understand and apply the resolve necessary to be a high-performing, global organization. We measure our progress on safety based on Recordable Incidence Rate (RIR) as defined by the United States Department of Labor, Bureau of Labor Statistics. In the three months ended March 31, 2011, our RIR improved approximately 30% over our full year performance throughout 2010.

ADOPTION OF NEW ACCOUNTING STANDARDS

There were no accounting standards issued during the quarter that the Company believes would have a material impact on the financial statements.

ENVIRONMENTAL MATTERS

We have been deemed by the Environmental Protection Agency (EPA) to be a Potentially Responsible Party (PRP) with respect to certain sites under the Comprehensive Environmental Response Compensation and Liability Act. We have also been deemed a PRP under similar state or local laws and in other instances other PRPs have brought suits against us as a PRP for contribution under such federal, state, or local laws. At March 31, 2011, we had environmental remediation liabilities as a PRP at 20 sites where we have a continuing legal obligation to either complete remedial actions or contribute to the completion of remedial actions as part of a group of PRPs. For these sites we estimate a reserve to reflect environmental liabilities that have been asserted or are probable of assertion, in which liabilities are probable and reasonably estimable. At March 31, 2011, our reserve for such liabilities was \$9 million.

Table of Contents

- 38 -

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Our disclosures and analysis in this report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contain 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. Forward-looking statements present our current forecasts and estimates of future events. These statements do not strictly relate to historical or current results and can be identified by words such as anticipate, believe, estimate, expect, intend, likely, may, plan, strategy, will and other terms of similar meaning or import in connection with any discussion of future operating, financial or other performance. These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected in the statements. These risks, uncertainties and other factors include, without limitation:

economic and political conditions, including new legislation or other governmental actions;

levels of residential and commercial construction activity;

competitive factors;

pricing factors;

weather conditions;

our level of indebtedness;

industry and economic conditions that affect the market and operating conditions of our customers, suppliers or lenders;

availability and cost of raw materials;

availability and cost of credit;

interest rate movements;

issues related to acquisitions, divestitures and joint ventures;

Edgar Filing: PACIFICNET COM INC - Form 10-Q

our ability to utilize our net operating loss carryforwards;

achievement of expected synergies, cost reductions and/or productivity improvements;

issues involving implementation of new business systems;

foreign exchange fluctuations;

research and development activities;

difficulties in managing production capacity; and

labor disputes.

All forward-looking statements in this report should be considered in the context of the risk and other factors described above and as detailed from time to time in the Company's Securities and Exchange Commission filings. Any forward-looking statements speak only as of the date the statement is made and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. It is not possible to identify all of the risks, uncertainties and other factors that may affect future results. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Accordingly, users of this report are cautioned not to place undue reliance on the forward-looking statements.

Table of Contents

- 39 -

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please refer to the Company's 2010 annual report on Form 10-K for the Company's quantitative and qualitative disclosures about market risk.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains (a) disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, (the "Exchange Act")), and (b) internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

- 40 -

PART II**ITEM 1. LEGAL PROCEEDINGS**

The Company has nothing to report under this Item.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors as disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities**

Owens Corning has nothing to report under this Item.

Issuer Purchases of Equity Securities

The following table provides information about Owens Corning's purchases of its common stock during each month during the quarterly period covered by this report:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs**
January 1-31, 2011	1,820	\$ 31.06	-	7,661,297
February 1-28, 2011	133,907	33.98	-	7,661,297
March 1-31, 2011	7,444	34.46	-	7,661,297
Total	143,171*	\$ 33.97	-	

* The Company retained 143,171 shares surrendered to satisfy tax withholding obligations in connection with the vesting of restricted shares granted to our employees.

Edgar Filing: PACIFICNET COM INC - Form 10-Q

** On August 4, 2010, the Company announced a share buy-back program under which the Company is authorized to repurchase up to 10 million shares of Owens Corning's outstanding common stock. Under the buy-back program, shares may be repurchased through open market, privately negotiated, or other transactions. The timing and actual number of shares repurchased will depend on market conditions and other factors and will be at the Company's discretion.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company has nothing to report under this Item.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

The Company has nothing to report under this Item.

ITEM 6. EXHIBITS

See Exhibit Index below, which is incorporated here by reference.

Table of Contents

- 41 -

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Owens Corning has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OWENS CORNING

Registrant

Date: April 27, 2011

By: /s/ Duncan J. Palmer
Duncan J. Palmer
Senior Vice President and
Chief Financial Officer
(as duly authorized officer)

Date: April 27, 2011

By: /s/ Mark W. Mayer
Mark W. Mayer
Vice President and
Chief Accounting Officer

Table of Contents

- 42 -

EXHIBIT INDEX

Exhibit Number	Description
10.1	Receivables Purchase Agreement dated as of March 31, 2011 by and among Owens Corning Receivables LLC, as Seller, Owens Corning Sales, LLC, as initial Servicer, the Various Conduit Purchasers, Related Committed Purchasers, LC Participants and Purchaser Agents from time to time party thereto, Wells Fargo Bank, National Association, as LC Bank, and The Bank of Nova Scotia, as Administrator (incorporated by reference to Exhibit 10.1 to Owens Corning's Current Report on Form 8-K (File No. 1-33100), filed April 5, 2011).
10.2	Purchase and Sale Agreement dated as of March 31, 2011 between Owens Corning Sales, LLC and Owens Corning Receivables LLC (incorporated by reference to Exhibit 10.2 to Owens Corning's Current Report on Form 8-K (File No. 1-33100), filed April 5, 2011).
10.3	Performance Guaranty dated as of March 31, 2011 (incorporated by reference to Exhibit 10.3 to Owens Corning's Current Report on Form 8-K (File No. 1-33100), filed April 5, 2011).
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) (filed herewith).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).
99.1	Subsidiaries of Owens Corning (filed herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase