PACIFIC MAGTRON INTERNATIONAL CORP
Form 10-Q
November 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from __________ to __________

Commission file number 000-25277

PACIFIC MAGTRON INTERNATIONAL CORP.
(Exact Name of Registrant as Specified in Its Charter)

Nevada	88-0353141
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1600 California Circle, Milpitas, California 95035
(Address of Principal Executive Offices)

(408) 956-8888
(Registrant's Telephone Number, Including Area Code)

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12,13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes |_| No |X|

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares of each of the issuer's classes of common stock, as of the latest practicable date. At August 31, 2005, the number of shares of common stock outstanding was 10,485,062.

PACIFIC MAGTRON INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF NET ASSETS (LIABILITIES) IN LIQUIDATION
(UNAUDITED - LIQUIDATION BASIS)

	SEPTEMBER 30, 2005
ASSETS	
Cash	$ 409,300
Restricted cash	150,300
Pre Petition unsecured accounts receivable, net of allowance for doubtful accounts of $81,900	16,200

Pre Petition accounts receivable from unsecured creditors/customers	17,000
Post Petition accounts receivable	6,000
Income tax refund receivable	73,500
Refundable insurance premiums	25,500
Equipment	2,000
Land and Building	4,200,000
Total assets	$ 4,899,800
LIABILITIES	
Post Petition secured accounts payable to Micro Technology Concepts, Inc.	205,000
Post Petition accounts payable and other accrued expenses	225,600
Estimated costs to be incurred during liquidation Period	84,600
Pre Petition secured note payable to Wells Fargo Bank, including interest of $12,000	2,319,800
Pre Petition secured note payable to U.S. Small Business Administration (SBA)	748,800
Pre Petition secured payable to Micro Technology Concepts, Inc.	479,800
Pre Petition unsecured accounts payable	$ 1,977,400
Total liabilities	6,041,000
NET LIABILITIES IN LIQUIDATION	$(1,141,200)

See accompanying notes to condensed consolidated financial statements

PACIFIC MAGTRON INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (LIABILITIES) IN LIQUIDATION
(UNAUDITED - LIQUIDATION BASIS)

Shareholders' deficiency, June 30, 2005 (Going concern basis)	$(1,043,600)
Liquidation basis adjustments:	
Adjust assets and liabilities to fair value	312,800
Abandonment of PMI accounts receivable and inventories (as ordered by the Court)	67,300
Payments in settlement with Textron Financial Corporation	302,900
Accrued interest and other costs paid to Textron Financial Corporation	(63,300)
Payment of principal and interest to U.S. Small Business Administration (SBA)	8,600
Payment of principal and interest to Wells Fargo Bank	57,100
Accrued estimated costs of liquidation	(424,000)
Decrease in restricted cash	(56,900)
Decrease in cash	(248,800)
Interest income and other income	(6,700)
Rebate income from supplier	(21,600)
Sale of inventories	(23,600)

Cost of inventories sold	12,800
Selling expenses	600
Costs incurred during liquidation period	351,000
Net change in accounts receivable, refundable insurance premiums and post petition accounts payable and other accrued expenses	(365,800)
NET LIABILITIES IN LIQUIDATION, September 30, 2005	$(1,141,200)

See accompanying notes to condensed consolidated financial statements.

2

PACIFIC MAGTRON INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(GOING CONCERN BASIS)

	December 31, 2004
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 543,800
Restricted cash	255,000
Accounts receivable, net of allowance for doubtful accounts of $310,700	3,661,100
Inventories	2,488,900
Prepaid expenses and other current assets	146,800
Assets from discontinued operations	435,900
Total Current Assets	7,531,500
Property and equipment, net	3,906,700
Restricted cash	250,000
Other assets	16,200
Assets from discontinued operations	36,300
	$ 11,740,700
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	$ 5,569,700
Floor plan inventory loans	2,243,100
Accrued expenses and other liabilities	133,800
Notes payable	71,900
Contingent settlement of Common Stock Warrants	2,300
Liabilities from discontinued operations	52,900
Total Current Liabilities	8,073,700
Notes Payable, less current portion	3,031,500
Shareholders' Equity:	
4% Series A Convertible Preferred Stock; 600 shares designated, issued and outstanding (liquidation value of $400,000)	234,100
Common stock, $0.001 par value; 25,000,000 shares authorized; 10,485,062 shares issued	

and outstanding	10,500
Additional paid-in capital	2,036,400
Accumulated deficit	(1,645,500)
Total Shareholders' Equity	635,500
	$ 11,740,700

See accompanying notes to condensed consolidated financial statements

3

PACIFIC MAGTRON INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited - GOING CONCERN BASIS)

	Six Months Ended June 30, 2005	Mon Sep
Sales	$ 9,983,500	$ 1
Cost of sales	9,596,100	1
Gross profit	387,400	
Selling, general and administrative expenses	1,685,600	
Loss from continuing operations before other income (expense)	(1,298,200)	
Other income (expense):		
Interest expense	(124,200)	
Change in fair value of warrants issued	2,300	
Loss on asset impairment	(113,000)	
Other expense, net	(6,000)	
Total other expense	(240,900)	
Loss from continuing operations	(1,539,100)	
Discontinued operations:		
Income (loss) from discontinued operations of:		
Pacific Magtron (GA),Inc	(140,000)	
Frontline Network Consulting, Inc.	--	
Total income (loss) from discontinued operations	(140,000)	
Accretion of discount and deemed dividend related to beneficial conversion of Series A Convertible Preferred Stock	(8,100)	
Accretion of redemption value of		

Series A Convertible Preferred Stock	--	
Net Loss applicable to common shareholders	$ (1,687,200)	$
Basic and diluted loss per share:		
Loss from continuing operations	$ (0.16)	$
Loss from discontinued operations	(0.01)	
Net loss applicable to common shareholders	$ (0.17)	$
Shares used in basic and diluted per share calculation	10,485,100	1

See accompanying notes to condensed consolidated financial statements.

PACIFIC MAGTRON INTERNATIONAL CORP. AND Subsidiaries
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIENCY)
(Unaudited - GOING CONCERN BASIS)

	Preferred Stock		Common Stock		Addi Pa Ca
	Shares	Amount	Shares	Amount	
Balance at December 31, 2004	600	$ 234,100	10,485,062	$ 10,500	$ 2,
Preferred stock accretion	--	8,100	--	--	
Loss from operations	--	--	--	--	
Loss from discontinued Operations	--	--	--	--	
Balance at June 30, 2005	600	$ 242,200	10,485,062	$ 10,500	$ 2,

See accompanying notes to condensed consolidated financial statements.

PACIFIC MAGTRON INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - GOING CONCERN BASIS)

	SIX MONTHS ENDED JUNE 30 2005	NINE MONTHS ENDED SEPTEMBER 2004
	(Unaudited)	(Unaudited)
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Net loss	$(1,687,200)	$(1,054,500)
Less: Accretion of dividend related to Series A Convertible Preferred Stock	8,100	19,500
Accretion of redemption value of Series A Convertible Preferred Stock	--	9,700
Loss from discontinued operation	140,000	62,200
Net loss from continuing operations	(1,539,100)	(963,100)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	85,000	260,200
Loss on asset impairment	112,400	--
Provision for doubtful accounts	(79,000)	25,000
Gain on sale of property and equipment	(1,900)	--
Change in fair value of warrants	(2,300)	(45,500)
Changes in operating assets and liabilities:		
Accounts receivable	2,947,900	(415,000)
Other receivables	--	185,200
Inventories	2,458,900	278,900
Prepaid expenses and other assets	59,500	14,500
Accounts payable	(2,488,000)	(260,000)
Accrued expenses and other liabilities	(47,000)	(96,500)
NET CASH PROVIDED BY (USED IN) CONTINUING OPERATIONS	1,506,400	(1,016,300)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS	148,600	26,800
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,655,000	(989,500)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	2,000	1,300
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,000	1,300
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Net increase (decrease) in floor plan inventory loans	(1,993,000)	403,100
Decrease in restricted cash	297,800	214,900
Principal payments on notes payable	(32,400)	(49,100)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,727,600)	568,900
NET DECREASE IN CASH AND CASH EQUIVALENTS	(70,600)	(413,900)
CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS:		
Beginning of period	543,800	1,491,700

End of period	473,200	$ 1,072,400
CASH AND CASH EQUIVALENTS FROM DISCONTINUED OPERATIONS	184,900	
TOTAL CASH AND CASH EQUIVALENTS	$ 658,100	

See accompanying notes to condensed consolidated financial statements.

PACIFIC MAGTRON INTERNATIONAL CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. VOLUNTARY REORGANIZATION/LIQUIDATION UNDER CHAPTER 11

The consolidated financial statements of Pacific Magtron International Corp. (the "Company" or "PMIC") include its subsidiaries, Pacific Magtron, Inc. ("PMI"), Pacific Magtron (GA) Inc. ("PMIGA") and LiveWarehouse, Inc. ("LW"). PMI and PMIGA's principal activity consisted of the importation and wholesale distribution of electronics products, computer components, and computer peripheral equipment throughout the United States. LW distributes certain computer and electronics products and sells consumer computer products on the internet. PMIGA ceased its operation as of April 30, 2005.

Bankruptcy Proceedings

As set forth in more detail below, the Company has filed a petition in bankruptcy. Although the petition was filed for reorganization under Chapter 11 of the Bankruptcy Code, the Company is currently not conducting any operations other than those necessary to liquidate its assets.

On May 11, 2005 (the "Petition Date"), PMIC, PMI, PMIGA and LW filed voluntary petitions to reorganize their businesses under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Nevada, (the "Bankruptcy Court"). The Bankruptcy Court is jointly administering these cases as "In re: Pacific Magtron International Corporation, Inc., et al., Case No.BK-S-05-14325 LBR."

Upon the filing of the petition in May 2005, the Company intended to form a joint venture with General Procurement, Inc. ("GPI") to continue the business operations. On May 16, 2005, the Court approved the Interim Management Agreement with GPI. Subsequent to the hearings on May 16, 2005, Micro Technology Concepts, Inc. ("MTC"), a major secured creditor of the Company, negotiated a similar joint venture agreement with the Company to replace the one entered into with GPI. The joint venture agreement included an interim management agreement ("IMA") whereby the joint venture partner, MTC, would take over management of the Company's sales and provide the Company with inventory on a secured basis while the Company sought approval of the joint venture as part of a plan of reorganization.

On June 23, 2005, MTC informed the Company that it would not continue to perform under the Interim Management Agreement and would not agree to allow the Company to use MTC's cash collateral for any business purpose except for liquidating the remaining assets of the Company. The Company has been forced to cease business activities except those necessary to liquidate its remaining assets. On August 31, 2005, PMI filed a complaint against MTC alleging that MTC breached its obligation under the IMA and MTC filed a motion to convert the PMI case to a case under Chapter 7 of the United States Bankruptcy Code. On September 9, 2005, MTC filed a counterclaim against PMI.

On September 19, 2005, PMI and MTC reached a settlement by which the various issues between MTC and PMI have been settled and the litigation dismissed. The settlement agreement was approved by the Court on November 7, 2005.

On July 18, 2005, the Company filed the "Disclosure Statement to Accompany Debtors' Joint Liquidating Plan of Reorganization" detailing the liquidation plan, however, the Company did not receive the Court's approval for the plan. The Company anticipates filing an amended Plan and Disclosure Statement for both PMI and PMIGA on November 16, 2005 for hearing on December 8, 2005.

Financial Statement Presentation

Effective July 1, 2005, the Company adopted the liquidation basis of accounting, whereby assets are valued at their estimated net realizable values and liabilities are valued at their estimated settlement amounts. The Company has provided an estimated liquidation basis statement of net assets (liabilities) in its Form 10-Q as of September 30, 2005 and the statement of changes in net assets (liabilities) for the quarterly period ended September 30, 2005. The valuation of assets and liabilities requires estimates and assumptions by management and there are substantial uncertainties in carrying out the liquidation plan. The amount and timing of future liquidating distribution to creditors and shareholders, if any, will depend upon a variety of factors including, but not limited to, the actual proceeds from the sale of the Company's assets, and the actual costs incurred in connection with carrying out the liquidation plan, including administrative costs during the liquidation period, and the timing of the liquidation. These estimates may vary significantly from the final amounts.

Prior to July 1, 2005, the Company had prepared its consolidated financial statements on a going-concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. PMIGA ceased its operation as of April 30, 2005. The activities, assets and liabilities of PMIGA were reclassified for reporting purposes as discontinued operations for all periods prior to June 30, 2005 shown in the accompanying condensed consolidated financial statements. On June 23, 2005, MTC informed the Company that it would not continue to perform under the Interim Management Agreement and would not agree to allow the Company to use MTC's cash collateral for any business purpose except for liquidating the remaining assets of the Company. The Company has been forced to cease business activities except those necessary to liquidate its remaining assets. The accompanying condensed consolidated financial statements and notes to these statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's annual report on Form 10-K for the year ended December 31, 2004. The interim financial information contained herein is unaudited; however, in management's opinion, all adjustments necessary for fair presentation of such financial information have been included.

2. RESTRICTED CASH

The Company's wholly owned subsidiary, PMI, obtained financing of $3,498,000 from Wells Fargo Bank for the purchase of its office and warehouse facility. Of the amount financed, $2,500,000 was in the form of a 10-year bank loan utilizing a 30-year amortization period. This loan bears interest at the bank's 90-day LIBOR rate (3.75% as of September 30, 2005) plus 2.5%, and is secured by a deed of trust on the property. The balance of the financing was obtained through a $998,000 Small Business Administration ("SBA") loan due in monthly installments through April 2017. The SBA loan bears interest at 7.569%, and is secured by the underlying property. The Company had violated certain financial covenant ratios in the loan agreement with Wells Fargo Bank of December 31, 2004 and was required to deposit $250,000 in a restricted cash account for debt services. As of September 30, 2005, $150,300 remained in the restricted cash account.

8

3. ABANDONMENT OF ACCOUNTS RECEIVABLE AND INVENTORIES

The amounts of accounts receivable as of September 30, 2005 are estimated at their fair collectible values and were recorded on the book of PMIGA.

On August 2, 2005, the Court authorized PMI to abandon its remaining accounts receivable and inventories to MTC. Under the settlement agreement between PMI and MTC on September 19, 2005, MTC agreed to reduce its pre petition claim by $200,000 and to reduce its post petition claim to $205,000 which was paid by the Company on November 11, 2005. The changes in assets and liabilities resulted from the abandonment are as follows:

Accounts receivable, net of allowance for doubtful accounts of $231,700	$ 714,500
Less payable to customers/vendors that could be used to offset accounts receivable	(577,300)
Inventories	--
Reduction of MTC's pre petition claim	(200,000)
Reduction of MTC's post petition claim	(4,500)
Net decrease in liabilities	$ (67,300)

The Company purchased products from certain vendors who were also customers of the Company. Due to the Company's non-payment of the due payable invoices, these customers/vendors are holding their payments on our invoices. The amount of PMIGA's receivables that were unpaid by these customers/vendors was $17,000 as of September 30, 2005. The accounts receivable abandoned to MTC included the amount of $577,300 receivables that were unpaid by these customers/vendors.

4. INCOME TAX REFUND RECEIVABLE

As of September 30, 2005, the Company anticipated a federal income tax refund resulted in carrying back the tax losses in 2002 to 1998.

5. REFUNDABLE INSURANCE PREMIUMS

The Company was required to make installment payments for the workers' compensation insurance premiums based on the annual payroll amounts estimated at the beginning of 2005. As of September 30, 2005, the amounts paid by the Company were in excess of the estimated premiums by $25,500. The overpayment will be refundable to the Company upon the termination or the expiration date (December 31, 2005) of the policy.

6. LAND AND BUILDING

The net realizable value of the Company's facility in Milpitas, California ("the Facility") is estimated to be $4,200,000 based on the offer to sell the property as of September 30, 2005 after deducting the normal expected transaction costs. On September 15, 2005, PMI entered into an agreement of selling the Facility to a third party for $4,389,000. The sale agreement was subject to the Court's approval. On October 14, 2005, PMI sold the Facility to another party for $4,990,000 pursuant to a Court order on October 28, 2005. The net realizable value of the Facility as of September 30, 2005 is based on the first sale agreement for $4,389,000.

9

7. ESTIMATED COSTS TO BE INCURRED DURING LIQUIDATION PERIOD

The Company estimated the cost to be incurred to complete the liquidation of its assets. The actual costs incurred are also dependent of the length of time to liquidate the assets and might be materially different from the estimated amount. The amounts of accrued estimated costs of liquidation and costs incurred and other income and expenses from July 1, 2005 to September 30, 2005 are as follow:

Accrued estimated costs of liquidation	$ 424,000
Costs incurred and other income and expenses during liquidation period:	
Costs incurred during liquidation period	351,000
Interest and other income	(6,700)
Rebate income from supplier	(21,600)
Sale of inventories	(23,600)
Cost of inventories sold	12,800
Selling expenses	600
Interest paid to Wells Fargo Bank and U.S. Small Business Administration	26,900
	339,400
Estimated costs to be incurred during liquidation as of September 30, 2005	$ 84,600

8. SECURED CREDITORS OF PRE-PETITION DEBTS

The secured creditors of the Company' Pre-Petition debts are as follows:

Textron Financial Corporation ("Textron") - Textron was fully secured by the Company's accounts receivable, inventories, cash and other assets. As of September 30, 2005, the outstanding balance due to Textron was fully paid. The Company agreed and the Court approved that Textron be paid $100,000 per month beginning June 2005 until the outstanding balance is fully paid. The Company remitted $100,000 on June 27, 2005 and $100,000 on July 18, 2005 to Textron. On August 2, 2005, the Company settled with Textron, with the Court's approval, for $202,900 for the principal and interest owed to Textron and legal costs incurred.

Wells Fargo Bank ("Wells Fargo") - Wells Fargo holds a first mortgage on the Company's land and building and funds in the Restricted Cash Account. The Company agreed and the Court approved that funds in the Restricted Account will be used to make the normal mortgage payments (currently $2,740 per month plus interest at 2.5% plus LIBOR, or a total of 6.25% at September 30, 2005). As of September 30, 2005, the outstanding amount due to Wells Fargo was $2,319,800 which includes interest of $12,000.

U.S. Small Business Administration ("SBA") - SBA holds a second mortgage interest on the Company's land and building. Payments of $8,591 are due monthly. The unpaid balance at September 30, 2005 was $748,800.

Micro Technology Concept, Inc. ("MTC") - PMI's cash, accounts receivable and inventories are secured by MTC. As of September 30, 2005, the amount of PMI's cash secured by MTC was $212,100 and the accounts receivable and inventories had been abandoned to MTC.

As described in Note 1 to the condensed consolidated financial statements, PMI and MTC reached a settlement on September 19, 2005 on various issues between MTC and PMI. The agreement includes that (a) MTC will give a credit of $200,000 from its pre petition claim in full satisfaction of the accounts receivable and inventories MTC has received from PMI's abandonment (see Note 2 to the condensed consolidated financial statements), (b) PMI will dismiss the adversary proceeding against MTC and MTC will dismiss the counterclaim against PMI, (c) PMI agrees that MTC has an allowed post petition secured claim against PMI in the amount of $205,000 which will be paid within 5 days of entry of the Bankruptcy Court's order approving the settlement agreement, (d) MTC's pre petition claim is secured by PMI's cash, PMI's accounts receivable and inventories (abandoned to MTC) and PMI's unsecured claim for repayment from PMIGA but not PMI's real estate, (e) MTC waives $150,000 of that portion of its claim not satisfied by its collateral that may be remaining after the application of its security to its pre petition claim, and (f) MTC does not object that PMI has an allowed unsecured, non-priority claim against PMIGA in the amount of $524,317 and that LW has an allowed unsecured, non-priority claim against PMI in the amount of $389,644. The settlement agreement was approved by the Court on November 7, 2005. As of September 30, 2005, the amount of pre petition and post petition secured payable to MTC was $479,800 and $205,000, respectively. On November 11, 2005, the Company paid $205,000 to MTC for the post petition secured claim against PMI.

9. FACILITY LEASE AND ASSIGNMENT OF CONTRACT

The Company had a contract with MarketPoint ("MP") whereby the Company provides warehouse and distribution services to MP. In July 2005, the Court has approved the assignment of MP contract from the Company to Encompass Group Affiliates, Inc. ("Encompass"), a wholly owned subsidiary of Advanced Communications Technologies, Inc. which is a majority shareholder of the Company. The Company leases certain space in its facility to Encompass on a month-to-month basis. The Company has recorded a rental income of $6,000 for the quarter ended September 30, 2005 and a receivable from Encompass for $6,000 as of September 30, 2005.

10. TRANSACTIONS WITH FORMER STOCKHOLDERS/EXECUTIVES

In December 2004, two stockholders/executives (the "Stockholders") holding a collective majority interest in the Company entered into a Stock Purchase Agreement with Advanced Communications Technologies, Inc., a Florida corporation ("ACT"), pursuant to which ACT agreed to purchase from the Stockholders, and the Stockholders agreed to sell to ACT, an aggregate of 6,454,300 shares of the common stock of the Company (the "PMIC Shares") for the aggregate purchase price of $500,000. On December 30, 2004, the Stockholders and ACT closed on the sale of the PMIC Shares (the "Closing"). In connection with the sale, the Stockholders entered into employment agreements with the Company and ACT. The Employment Agreements, dated December 30, 2004, provided for a cash bonus of $225,000 each to be paid within 30 days of the Closing and other bonus and earn-out provisions payable in cash or in shares of common stock of ACT. Under the earn-out provisions, the Stockholders could have earned the right to receive in aggregate up to 99,999,999 shares of ACT's common stock. The Employment Agreements further provided that in the event the Company terminates the Employment Agreements without cause upon 30 days prior written notice, the Stockholders were entitled to 6 months severance pay.

On May 10, 2005, the Company terminated the Employment Agreements for "cause" pursuant to the terms of the Employment Agreements. No part of the bonuses has been paid. On May 11, 2005, ACT filed a complaint in the United States District Court for the Southern District of New York against the former officers and principal shareholders of PMIC, for the recovery of damages and costs for securities fraud, breach of contract and other counts in connection with the Stock Purchase Agreement.

11. EMPLOYMENT OF COUNSELS

On July 26, 2005, the Company filed a motion with the Court (a) to employ a special litigation counsel for handling the legal dispute arising under or related to the interim management agreement between the Company and MTC, and (b) to authorize the Company to obtain a $30,000 loan from ACT, a majority shareholder of PMIC. The proceeds of the loan from ACT would be used as payment to retain the special counsel for the MTC litigation. The loan would bear interest at 6.25%. The principal would be repaid in 9 months or upon the sale of the Company's real property. The legal dispute arising under the interim management agreement between the Company and MTC was settled on September 19, 2005 (see Note 8 to the condensed consolidated financial statements). The fees for the employment of the special litigation counsel incurred through September 30, 2005 were approximately $26,000. On October 27, 2005, PMI obtained a loan of $26,100 from ACT and the proceeds were used to pay for the special litigation counsel's fees.

The Company also incurs professional services from a bankruptcy counsel and independent accountants. As of September 30, 2005, the Company has accrued $186,100 for the fees owed to the special litigation counsel, the bankruptcy counsel and accountants and the accrued amount was included in Post Petition accounts payable and other accrued expenses in the accompanying condensed consolidated statement of net assets (liabilities) in liquidation.

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

FORWARD-LOOKING INFORMATION

Certain matters in this Form 10-Q, including, without limitation, certain matters discussed under Part I -- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations constitute "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. Forward-looking statements are typically identified by the words "believes," "expects," "anticipates," "intends," "estimates," "will," "continue," "seeks" and similar expressions. In addition, any statements that refer to expectations or other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that any such forward-looking statements are not guarantees of performance and that matters referred to in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Pacific Magtron International Corp. and each of its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, risks and uncertainties discussed throughout Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Pacific Magtron International Corp. undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW AND BANKRUPTCY PROCEEDINGS

As used herein and unless otherwise indicated, the terms "Company," "we," and "our" refer to Pacific Magtron International Corp. and each of its subsidiaries.

As set forth in more detail below, the Company has filed a petition in bankruptcy. Although the petition was filed for reorganization under Chapter 11 of the Bankruptcy Code, the Company is currently not conducting any operations other than those necessary to liquidate its assets.

On May 11, 2005 (the "Petition Date"), PMIC, PMI, PMIGA and LW filed voluntary petitions to reorganize their businesses under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Nevada, (the "Bankruptcy Court"). The Bankruptcy Court is jointly administering these cases as "In re: Pacific Magtron International Corporation, Inc., et al., Case No.BK-S-05-14325 LBR."

Upon the filing of the petition in May 2005, the Company intended to form a joint venture with General Procurement, Inc. ("GPI") to continue the business operations. On May 16, 2005, the Court approved the Interim Management Agreement with GPI. Subsequent to the hearings on May 16, 2005, Micro Technology Concepts, Inc. ("MTC"), a major secured creditor of the Company, negotiated a similar joint venture agreement with the Company to replace the one entered into with GPI. The joint venture agreement included an interim management agreement ("IMA") whereby the joint venture partner, MTC, would take over management of the Company's sales and provide the Company with inventory on a secured basis while the Company sought approval of the joint venture as part of a plan of reorganization.

On June 23, 2005, MTC informed the Company that it would not continue to perform under the Interim Management Agreement and would not agree to allow the Company to use MTC's cash collateral for any business purpose except for liquidating the remaining assets of the Company. The Company has been forced to cease business activities except those necessary to liquidate its remaining assets. On August 31, 2005, PMI filed a complaint against MTC alleging that MTC breached its obligation under the IMA and MTC filed a motion to convert the PMI case to a case under Chapter 7 of the United States Bankruptcy Code. On September 9, 2005, MTC filed a counterclaim against PMI.

On August 2, 2005, the Court authorized PMI to abandon its remaining accounts receivable and inventories to MTC. The abandonment resulted in a net decrease in our liabilities by $63,600.

On September 19, 2005, PMI and MTC reached a settlement by which the various issues between MTC and PMI have been settled and the litigation dismissed. The settlement agreement was approved by the Court on November 7, 2005.

On September 15, 2005, PMI entered into an agreement of selling the real property at 1600 California Circle, Milpitas, California ("Facility") to a third party for $4,389,000. The sale agreement was subject to the Court's approval. On October 14, 2005, PMI rejected the prior sale agreement and sold its Facility to another party for $4,990,000 pursuant to a Court order entered on October 28, 2005.

On July 18, 2005, the Company filed the "Disclosure Statement to Accompany Debtors' Joint Liquidating Plan of Reorganization" detailing the liquidation plan, however, the Company did not receive the Court's approval for the plan. The Company anticipates filing an amended Plan and Disclosure Statement for both PMI and PMIGA on November 16, 2005 for hearing on December 8, 2005.

Financial Statement Presentation

Effective July 1, 2005, the Company adopted the liquidation basis of accounting, whereby assets are valued at their estimated net realizable values and liabilities are valued at their estimated settlement amounts. The Company has provided an estimated liquidation basis statement of net assets (liabilities) in its Form 10-Q as of September 30, 2005 and the statement of changes in net assets (liabilities) for the quarterly period ended September 30, 2005. The valuation of assets and liabilities requires estimates and assumptions by management and there are substantial uncertainties in carrying out the liquidation plan. The amount and timing of future liquidating distribution to creditors and shareholders, if any, will depend upon a variety of factors including, but not limited to, the actual proceeds from the sale of the Company's assets, and the actual costs incurred in connection with carrying out the liquidation plan, including administrative costs during the liquidation period, and the timing of the liquidation. These estimates may vary significantly from the final amounts.

Prior to July 1, 2005, the Company had prepared its consolidated financial statements on a going-concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. PMIGA ceased its operation as of April 30, 2005. The activities, assets and liabilities of PMIGA were reclassified for reporting purposes as discontinued operations for all periods prior to June 30, 2005 shown in the accompanying condensed consolidated financial statements. On June 23, 2005, MTC informed the Company that it would not continue to perform under the Interim Management Agreement and would not agree to allow the Company to use MTC's cash collateral for any business purpose except for liquidating the remaining assets of the Company. The Company has been forced to cease business activities except those necessary to liquidate its remaining assets.

CHANGES IN NET ASSETS (LIABILITIES) IN LIQUIDATION

Adjustment of Assets and Liabilities to Fair Value

Upon the adoption of liquidation basis of accounting, the Company adjusted its assets and liabilities to their fair value. The net adjustment amount was $312,800 for the quarter ended September 30, 2005. The net adjustment is primarily attributed to the $474,100 adjustment in value of the real estate. On September 15, 2005, PMI entered into an agreement of selling the Facility to a third party for $4,389,000. The sale agreement was subject to the Court's approval. On October 14, 2005, PMI sold its Facility to another party for $4,990,000 pursuant to a Court order entered on October 28, 2005.

Abandonment of PMI Accounts Receivable and Inventories

On August 2, 2005, the Court authorized PMI to abandon its remaining accounts receivable and inventories to MTC. Under the settlement agreement between PMI and MTC on September 19, 2005, MTC agreed to reduce its pre petition claim by $200,000 and to reduce its post petition claim to $205,000 for the abandoned receivables and inventories received. The abandonment resulted in a net decrease in our liabilities by $67,300.

Costs Incurred During Liquidation Period

The amount of costs incurred during the liquidation period from July 1, 2005 to September 30, 2005 was $351,000. The costs incurred primarily consist of $77,100 in salaries and related costs, $238,700 in legal and other professional fees, $19,700 in real property taxes and $14,600 in utilities costs. The Company has accrued an estimated cost of $424,000 for the liquidation period.

Other Items

During the quarter ended September 30, 2005, the Company liquidated certain of its inventories for $23,600 and received $21,600 of rebates earned prior to June 30, 2005.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2005, PMI, PMIGA, LW and PMIC had cash in the amounts of $212,100, $161,100, $35,900 and $200, respectively. PMI's cash of $212,100 is secured by MTC. In addition, PMI has $150,100 in an account restricted for the use of servicing the monthly mortgage payments to Wells Fargo Bank. For the quarter ended September 30, 2005, the Company has incurred $351,000 in costs. Included in the costs incurred are legal fees of $186,100 which were accrued but not yet been paid as of September 30, 2005.

In June 2005, the Company agreed and the Court approved that Textron be paid $100,000 per month beginning June 2005 until the outstanding balance is fully paid. The Company remitted $100,000 on June 27, 2005 and $100,000 on July 18, 2005 to Textron. On August 2, 2005, the Company settled with Textron, with the Court's approval, for a total payment of $202,800 of which $139,500 was for the balance owed and $63,300 for interest and legal costs incurred.

The Company made its monthly mortgage payments to Wells Fargo Bank from its restricted cash. For the three months ended September 30, 2005, principal and interest totaled to $57,100 were paid to Wells Fargo Bank from the restricted cash account.

U.S. Small Business Administration ("SBA") holds a second mortgage interest on the Company's real property. Payments of $8,591 are due monthly. The Company has not been remitting the monthly payments since August 2005. As of September 30, 2005, the outstanding principal balance due SBA was $748,800.

On October 14, 2005, PMI entered into an agreement to sell its real estate to a third party for $4,990,000 pursuant to a Court order entered on October 28, 2005. On October 27, 2005, PMI obtained a loan of $26,100 from ACT and the proceeds were used to pay for the special litigation counsel's fees. The Company issued a promissory note which bears interest at 6.25% per annum and principal and interest are due in 9 months or upon the receipts of the proceeds from the sale of the Company's real estate. PMI and MTC reached a settlement on September 19, 2005 on various issues between MTC and PMI. The agreement includes that (a) MTC will give a credit of $200,000 from its pre petition claim in full satisfaction of the accounts receivable and inventories MTC has received from

PMI's abandonment, (b) PMI will dismiss the adversary proceeding against MTC and MTC will dismiss the counterclaim against PMI, (c) PMI agrees that MTC has an allowed post petition secured claim against PMI in the amount of $205,000 which will be paid within 5 days of entry of the Bankruptcy Court's order approving the settlement agreement, (d) MTC's pre petition claim is secured by PMI's cash, PMI's accounts receivable and inventories (abandoned to MTC) and PMI's unsecured claim for repayment from PMIGA but not PMI's real estate, (e) MTC waives $150,000 of that portion of its claim not satisfied by its collateral that may be remaining after the application of its security to its pre petition claim, and (f) MTC does not object that PMI has an allowed unsecured, non-priority claim against PMIGA in the amount of $524,317 and that LW has an allowed unsecured, non-priority claim against PMI in the amount of $389,644. The court hearing date was set on October 31, 2005. The settlement agreement was approved by the Court on November 7, 2005. As of September 30, 2005, the amount of pre petition and post petition secured payable to MTC was $479,800 and $205,000, respectively. On November 11, 2005, the Company paid $205,000 to MTC for the post petition secured claim against PMI.

OFF-BALANCE ARRANGEMENT

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors, and the Company does not have any non-consolidated special purpose entities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to one of our bank loans with a $2,307,800 balance at September 30, 2005, which bears fluctuating interest based on the bank's 90-day LIBOR rate. We believe that fluctuations in interest rates in the near term will not materially affect our financial conditions. We are not exposed to material risk based on exchange rate fluctuation or commodity price fluctuation.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on this evaluation, our principal executive officer and principal financial officer concluded, as of the end of such period, that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

(b) Changes in Internal Controls Over Financial Reporting.

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) identified in connection with the evaluation of our internal control performed during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. - LEGAL PROCEEDINGS

On May 11, 2005 (the "Petition Date"), PMIC, PMI and 3 direct and indirect wholly-owned subsidiaries filed voluntary petitions to reorganize their businesses under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Nevada (the "Bankruptcy Court"). The Bankruptcy Court is jointly administering these cases as "In re: Pacific Magtron International Corporation, Inc., et al., Case No. BK-S-05-14325 LBR."

In August 2005 PMI filed a lawsuit against MTC and several individuals, including two former employees of PMI. The complaint ("Adversary Proceeding") includes charges of breach of contract, among other things, and seeks damages as restitution. `On September 9, 2005, MTC filed an answer and counterclaim to the Adversary Proceeding naming PMI and two PMI's officers and executives as counter-defendants. On September 19, 2005, PMI, MTC and all other participating parties reached a global settlement resolving the issues raised in the Adversary Proceeding, the motion and the proposed plans of reorganization. The settlement agreement was approved by the Court on November 7, 2005.

17

ITEM 3. - DEFAULTS UPON SENIOR SECURITIES.

Our mortgage loan with Wells Fargo Bank and our Small Business Administration Loan are in default. All of our loan agreements contain provisions that the filing of a voluntary petition in bankruptcy is a default under the loans. However, under bankruptcy law, those provisions are unenforceable. See "Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for more information about the outstanding amounts due under our loans with Wells Fargo Bank and the Small Business Administration.

ITEM 6. - EXHIBITS

(a) Exhibits	Description	Reference*
3.1	Amended and Restated Articles of Incorporation	(1)
3.2	Amended and Restated Bylaws	(1)
3.3	Amended and Restated Certificate of Designation of Preferences, Rights and Limitations of Series A Redeemable Convertible Preferred Stock	(2)
10.1	Agreement of Purchase and Sale and Joint Escrow Instructions	(3)
10.2	Settlement Agreement Affecting Adversary Proceeding, Payment of Claims and Plans of Reorganization	**
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	**
31.2	Certificate of Chief Financial Officer pursuant to	

	Section 302 of the Sarbanes-Oxley Act of 2002	**
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	**

(1) Incorporated by reference to the Company's registration statement on Form 10SB-12G filed January 20, 1999.

(2) Incorporated by reference to the Company's Current Report on Form 8-K filed on January 5, 2005.

(3) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 1, 2005.

* In the case of incorporation by reference to documents filed by the Registrant under the Securities Exchange Act of 1934, as amended, the Registrant's file number under the Exchange Act is 000-25277.

** Filed herewith.

18

SIGNATURES

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

PACIFIC MAGTRON INTERNATIONAL CORP.,
a Nevada corporation

Date: November 14, 2005

By /s/ Martin Nielson

Martin Nielson
President and Chief Executive Officer

19