

ChinaNet Online Holdings, Inc.  
Form 10-Q  
May 16, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended March 31, 2016

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: 001-34647

**ChinaNet Online Holdings, Inc.**

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-4672080

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

**No. 3 Min Zhuang Road, Building 6,**

**Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC 100195**

(Address of principal executive offices) (Zip Code)

**+86-10-6900-5520**

(Registrant's telephone number, including area code)

**N/A**

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer (Do not check if a smaller reporting company)   
Smaller reporting company

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

As of May 16, 2016, the registrant had 30,355,722 shares of common stock outstanding.

**TABLE OF CONTENTS**

<u>PART I. FINANCIAL INFORMATION</u>	PAGE
<u>Item 1. Interim Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2016 (Unaudited) and December 31, 2015</u>	<u>F1-F2</u>
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	<u>F3-F4</u>
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	<u>F5-F6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>F7-F26</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27-37</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
<u>Item 4. Controls and Procedures</u>	<u>37</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>38</u>
<u>Item 1A. Risk Factors</u>	<u>38</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>38</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>38</u>
<u>Item 5. Other Information</u>	<u>38</u>
<u>Item 6. Exhibits</u>	<u>39</u>
<u>Signatures</u>	<u>40</u>

**PART I. FINANCIAL INFORMATION****Item 1. Interim Financial Statements****CHINANET ONLINE HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	March 31, 2016	December 31, 2015
	(US \$)	(US \$)
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,744	\$ 5,503
Term deposit	3,281	3,265
Accounts receivable, net	3,030	2,549
Other receivables, net	436	1,910
Prepayment and deposit to suppliers	6,013	5,843
Due from related parties	323	41
Other current assets	16	45
Assets classified as held for sale	1,958	1,882
Total current assets	18,801	21,038
Long-term investments	1,576	1,133
Property and equipment, net	711	681
Intangible assets, net	5,351	5,638
Deposit and prepayment for purchasing of software technology	2,438	1,024
Goodwill	4,418	4,396
Deferred tax assets-non current	1,556	1,550
Total Assets	\$ 34,851	\$ 35,460
Liabilities and Equity		
Current liabilities:		
Accounts payable *	\$ 217	\$ 95
Advances from customers *	1,379	1,313
Accrued payroll and other accruals *	615	685
Guarantee payment and prepayment from new investors	949	944

Edgar Filing: ChinaNet Online Holdings, Inc. - Form 10-Q

Taxes payable *	3,255	3,186
Other payables *	145	234
Liabilities classified as held for sale *	964	913
Total current liabilities	7,524	7,370

F-1

**CHINANET ONLINE HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**

(In thousands, except for number of shares and per share data)

	March 31, 2016 (US \$) (Unaudited)	December 31, 2015 (US \$)
Long-term liabilities:		
Deferred tax liability-non current *	89	118
Long-term borrowing from a director	135	135
Total Liabilities	7,748	7,623
Commitments and contingencies	130	129
Equity:		
ChinaNet Online Holdings, Inc.'s stockholders' equity		
Common stock (US\$0.001 par value; authorized 50,000,000 shares; issued and outstanding 30,355,722 shares and 29,640,130 shares at March 31, 2016 and December 31, 2015, respectively)	30	30
Additional paid-in capital	27,074	26,510
Statutory reserves	2,607	2,607
Retained deficit	(5,281 )	(3,870 )
Accumulated other comprehensive income	2,185	2,056
Total ChinaNet Online Holdings, Inc.'s stockholders' equity	<b>26,615</b>	27,333
Noncontrolling interests	358	375
Total equity	26,973	27,708
Total Liabilities and Equity	\$ 34,851	\$ 35,460

\*All of the VIEs' assets can be used to settle obligations of their primary beneficiary. Liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets (Note 2).

See notes to condensed consolidated financial statements

F-2



**CHINANET ONLINE HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(In thousands)

	Three Months Ended March 31,	
	2016	2015
	(US \$)	(US \$)
	(Unaudited)	(Unaudited)
Revenues		
From unrelated parties	\$5,012	\$ 5,661
From related parties	48	63
Total revenues	5,060	5,724
Cost of revenues	3,456	4,868
Gross profit	1,604	856
Operating expenses		
Sales and marketing expenses	880	1,185
General and administrative expenses	1,706	1,245
Research and development expenses	426	490
Total operating expenses	3,012	2,920
Loss from operations	(1,408)	(2,064 )
Other income (expenses)		
Interest income	27	29
Interest expense	-	(17 )
Other (expenses)/income	(12 )	32
Total other income	15	44
Loss before income tax expense, equity method investments, noncontrolling interests and discontinued operation	(1,393)	(2,020 )
Income tax benefit	28	222
Loss before equity method investments, noncontrolling interests and discontinued operation	(1,365)	(1,798 )
Share of income in equity investment affiliates	-	1
Loss from continuing operations	(1,365)	(1,797 )
Loss from discontinued operation, net of income tax	(46 )	(25 )
Net loss	(1,411)	(1,822 )
Net loss attributable to noncontrolling interests from continuing operations	-	34
Net loss attributable to ChinaNet Online Holdings, Inc.	(1,411)	(1,788 )

**CHINANET ONLINE HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(CONTINUED)****(In thousands, except for number of shares and per share data)**

	Three Months Ended March 31,	
	2016	2015
	(US \$)	(US \$)
	(Unaudited)	(Unaudited)
Net loss	(1,411 )	(1,822 )
Foreign currency translation gain/(loss)	112	(120 )
Comprehensive loss	(1,299 )	(1,942 )
Comprehensive loss attributable to noncontrolling interests	17	33
Comprehensive loss attributable to ChinaNet Online Holdings, Inc.	(1,282 )	(1,909 )
Loss per share		
Loss from continuing operations per common share		
Basic and diluted	\$(0.05 )	\$(0.07 )
Loss from discontinued operations per common share		
Basic and diluted	\$-	\$-
Weighted average number of common shares outstanding:		
Basic and diluted	28,356,797	26,366,797

See notes to condensed consolidated financial statements

**CHINANET ONLINE HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Three Months Ended March 31,	
	2016	2015
	(US \$)	(US \$)
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net loss	\$(1,411)	\$ (1,822 )
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities		
Depreciation and amortization	384	444
Share-based compensation expenses	564	455
Loss on disposal of fixed assets	21	-
Reverse of allowances for doubtful accounts	-	(220 )
Share of income in equity investment affiliates	-	(1 )
Deferred taxes	(28 )	(226 )
Changes in operating assets and liabilities		
Accounts receivable	(507 )	(42 )
Other receivables	1,464	200
Prepayment and deposit to suppliers	(152 )	(2,175 )
Due from related parties	(19 )	(8 )
Other current assets	29	(119 )
Accounts payable	190	(38 )
Advances from customers	64	1,279
Accrued payroll and other accruals	(89 )	(72 )
Other payables	(114 )	42
Taxes payable	47	(25 )
Net cash provided by/(used in) operating activities	443	(2,328 )
Cash flows from investing activities		
Payment for office equipment and leasehold improvement	(117 )	-
Long-term investment in and advance to cost/equity method investees	(693 )	(183 )
Payment for purchasing of software technology	(1,394)	(326 )
Net cash used in investing activities	(2,204)	(509 )

**CHINANET ONLINE HOLDINGS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

(In thousands)

	Three Months Ended March 31, 2016 2015 (US (US \$) \$) (Unaudited)	
Cash flows from financing activities		
Net cash provided by/(used in) financing activities	-	-
Changes in cash and cash equivalents included in assets held for sale	(6)	-
Effect of exchange rate fluctuation on cash and cash equivalents	8	(16)