

Sino-Global Shipping America, Ltd.
Form 10-Q
November 12, 2015

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the period ended **September 30, 2015**

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 001-34024

Sino-Global Shipping America, Ltd.

(Exact name of registrant as specified in its charter)

Virginia	11-3588546
(State or other jurisdiction of	(I.R.S.
Incorporation or organization)	employer
	identification
	number)

1044 Northern Boulevard, Suite 305

Roslyn, New York 11576-1514

(Address of principal executive offices and zip code)

(718) 888-1814

(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 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.

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 No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The Company is authorized to issue 50,000,000 shares of common stock, without par value per share, and 2,000,000 shares of preferred stock, without par value per share. As of the date of this report, the Company has 8,358,575 issued and outstanding shares of common stock and no shares of preferred stock.

SINO-GLOBAL SHIPPING AMERICA, LTD.

FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain statements of a forward-looking nature. Such forward-looking statements, including but not limited to projected growth, trends and strategies, future operating and financial results, financial expectations and current business indicators are based upon current information and expectations and are subject to change based on factors beyond the control of the Company. Forward-looking statements typically are identified by the use of terms such as “look,” “may,” “will,” “should,” “might,” “believe,” “plan,” “expect,” “anticipate,” “estimate” and similar words, although forward-looking statements are expressed differently. The accuracy of such statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including but not limited to the following:

· Our ability to timely and properly deliver shipping agency, ship management, shipping and chartering and inland transportation management services;

· Assuming we acquire the Vessel, our ability to integrate the Vessel into our operations in a seamless manner without causing disruption to our current businesses as well as, among other items, our ability to successfully generate revenues and cash flows from the Vessel;

· Our dependence on a limited number of major customers and related parties;

· Political and economic factors in the Peoples’ Republic of China (“PRC”);

· Our ability to expand and grow our lines of business;

· Unanticipated changes in general market conditions or other factors, which may result in cancellations or reductions in the need for our services;

· Economic conditions which would reduce demand for services provided by the Company and could adversely affect profitability;

· The effect of terrorist acts, or the threat thereof, on consumer confidence and spending, or the production and distribution of product and raw materials which could, as a result, adversely affect the Company’s shipping agency services, operations and financial performance;

- The acceptance in the marketplace of our new lines of services;
- Foreign currency exchange rate fluctuations;
- Hurricanes or other natural disasters;
- The impact of quotas, tariffs or safeguards on our customer products that we service; and
- Our ability to attract, retain and motivate skilled personnel.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update this forward-looking information. Nonetheless, the Company reserves the right to make such updates from time to time by press release, periodic report or other method of public disclosure without the need for specific reference to this Report. No such update shall be deemed to indicate that other statements not addressed by such update remain correct or create an obligation to provide any other updates.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

See the Company's unaudited condensed consolidated financial statements following the signature page of this report, which are incorporated herein by reference.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our Company's financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors.

Overview

Founded in the US in 2001, we are a shipping agency, logistics and ship management services company. Our current service offerings consist of shipping agency services, shipping and chartering services, inland transportation management services and ship management services. We conduct our business primarily through our wholly-owned subsidiaries in Mainland China, Hong Kong, Australia, Canada and New York. A significant portion of our business is generated from clients located in China. The shipping agency business is operated by our subsidiaries in Hong Kong and Australia. The ship management services are operated by our subsidiary in Hong Kong. The shipping and chartering services are operated via our headquarter in the US and our HK subsidiary. The inland transportation management services are operated by our subsidiary in China, Trans Pacific Beijing (as defined below).

Our subsidiary in China, Trans Pacific Shipping Limited ("Trans Pacific Beijing"), a wholly owned foreign enterprise, invested in one 90%-owned subsidiary, Trans Pacific Logistics Shanghai Limited ("Trans Pacific Shanghai," and, together with Trans Pacific Beijing, collectively, "Trans Pacific"). As PRC laws and regulations restrict foreign ownership of local shipping agency service businesses, we formerly provided shipping agency services in the PRC through Sino-Global Shipping Agency Ltd. ("Sino-China"), a Chinese legal entity, which holds the licenses and permits necessary to operate local shipping agency services in the PRC. Trans Pacific Beijing and Sino-China do not have a parent-subsidiary relationship. Trans Pacific Beijing has contractual arrangements with Sino-China and its shareholders that enable us to substantially control Sino-China. Through Sino-China, we have the ability to provide local shipping agency services in all commercial ports in the PRC. During fiscal year 2014, we completed a number of

cost reduction initiatives and reorganized our shipping agency business in the PRC to improve our operating margin. In light of our decision not to pursue the local shipping agency business and as a result of the business reorganization efforts, we no longer provide shipping agency services through our VIE structure and have not undertaken any business through or with Sino-China since approximately June 30, 2014.

Business Segments

We currently deliver the following services: shipping agency and ship management services, shipping and chartering services, and inland transportation management services. Historically, we were in the business of solely providing shipping agency services. With the support of our largest shareholder, Mr. Zhong Zhang and the company he controls, Tianjin Zhi Yuan Investment Group Co. Ltd. (the “Zhiyuan Investment Group”), we expanded our service platform during fiscal year 2014 to include shipping and chartering services (launched during the quarter ended September 30, 2013) and inland transportation management services (launched during the quarter ended December 31, 2013). With the acquisition of Longhe Ship Management (Hong Kong) Co. Limited (“LSM”), a ship management company that is based in Hong Kong, we added ship management services to our service platform in September 2014.

The following table presents summary information by segment for the three months ended September 30, 2015 and 2014:

	For the three months ended September 30, 2015				For the three months ended September 30, 2014			
	Shipping Agency and Ship Management Services	Shipping and Chartering Services	Inland Transportation Management Services	Consolidated	Shipping Agency and Ship Management Services	Inland Transportation Management Services	Consolidated	
Revenues	\$1,059,385	\$446,218	\$1,193,615	\$2,699,218	\$1,659,291	\$ -	\$946,634	\$2,605,925
Cost of revenues	\$847,613	204,510	\$188,553	\$1,240,676	\$1,283,505	-	\$125,648	\$1,409,153
Gross profit	\$211,772	241,708	\$1,005,062	\$1,458,542	\$375,786	-	\$820,986	\$1,196,772
Gross margin	20.0	% 54.2	% 84.2	% 54.0	% 22.6	% -	86.7	% 45.9

Revenues

(1) Revenues from Shipping Agency and Ship Management Services

Shipping Agency Services

We provide two types of shipping agency services: loading/discharging services and protective services. For protective agency services, we charge fixed fees while our customers are responsible for the payment of port costs and expenses. For loading/discharging agency services, we receive the total amount from our customers and pay the port charges on our customers' behalf. Under these circumstances, we generally require payments in advance from customers and bill them the balances within 30 days after the transactions are completed. We believe the most significant factors that directly or indirectly affect our shipping agency service revenues are:

- the number of ships to which we provide port loading/discharging services;
- the size and types of ships we serve;
- the type of services we provide;
- the rate of service fees we charge;
- the number of ports at which we provide services; and
- the number of customers we serve.

For the three months ended September 30, 2015 and 2014, our shipping agency revenues were \$1,059,385 and \$1,659,291, respectively. The decline in revenues was due mainly to the decrease in the total number of ships we served - from 70 for the three months ended September 30, 2014 to 10 for the same period in 2015. Decreases in the number of ships served were driven by the decline in overall imports by China and intense competition in the industry, with established and new competitors offering rates that in many cases are much lower than we can offer.

	For the three months ended			
	September 30,			
	2015	2014	Change	%
Number of ships served				
Loading/discharging	10	15	(5)	(33)
Protective	-	55	(55)	(100)
Total	10	70	(60)	(86)

Ship Management Services

We acquired LSM from Mr. Deming Wang on September 8, 2014. From September to December 2014, LSM managed seven vessels and outsourced the actual ship management duties (which include among other things, crew, technical and insurance arrangements) to Qingdao Longhe Ship Management Services Co., Ltd., a company controlled by Mr. Deming Wang. Based on industry publications and information received from third parties, we grew concerned about the financial viability of vessel owners who were our customers and determined to suspend service to such customers since early January 2015. Because we acted swiftly to suspend such services, we avoided any payment and collection issues with these customers. While we do not currently serve any other customers in this business segment, we are in discussions with a number of potential customers to provide such services. The ship management services generated revenues of zero for the three months ended September 30, 2015 and \$47,587 from September 8, 2014 to September 30, 2014.

(2) Revenues from Shipping and Chartering Services

On April 10, 2015, we entered into an Asset Purchase Agreement with Rong Yao International Shipping Limited (the “Vessel Seller”) regarding the acquisition (the “Acquisition”) of Rong Zhou, a small oil/chemical vessel (the “Vessel”). Pending completion of the Acquisition, our Board of Directors approved the entry into chartering arrangements to facilitate the transition of the management and operation of the Vessel. Accordingly, the Vessel Seller has time-chartered the Vessel to us for a two-year period, and we have time-chartered the Vessel to a third-party charterer also for a two-year period, both commencing on May 20, 2015. Under the terms of these chartering agreements, the third-party charterer will pay us at the rate of \$7,500 per day, and we will, in turn, pay the Vessel Seller at the rate of \$3,500 per day. The time charter agreements generated revenues of approximately \$0.45 million and gross profit of approximately \$0.24 million for the three months ended September 30, 2015. We did not deliver any shipping and chartering services during the three months ended September 30, 2014.

(3) Revenues from Inland Transportation Management Services

In September 2013, we executed an inland transportation management service contract with the Zhiyuan Investment Group whereby we would provide certain advisory services to help control potential commodities loss during the transportation process. We started to provide inland transportation management services to a third-party customer, Tengda Northwest Ferroalloy Co., Ltd., since the quarter ended September 2014. For the three months ended September 30, 2015 and 2014, the inland transportation management services generated revenues of \$1,193,615 and \$946,634, respectively; and gross profit of \$1,005,062 and \$820,986, respectively.

Operating Costs and Expenses

Our operating costs and expenses consist of cost of revenues, general and administrative expenses (“G&A expenses”), and selling expenses. As a result of a change in our service mix year over year toward lower cost services, we were able to reduce our total operating costs and expenses by \$219,156 for the three months ended September 30, 2015 as compared to the same period of 2014.

The following tables set forth the components of our Company's costs and expenses for the periods indicated.

	For the three months ended September 30,					
	2015		2014		Change	
	US\$	%	US\$	%	US\$	%
Revenues	2,699,218	100.0%	2,605,925	100.0%	93,293	3.6 %
Cost of revenues	1,240,676	46.0 %	1,409,153	54.1 %	(168,477)	-12.0%
Gross margin	54.0	%	45.9	%	8.1	%
General and administrative expenses	930,842	34.5 %	939,805	36.1 %	(8,963)	-1.0 %
Selling expenses	14,623	0.5 %	56,339	2.2 %	(41,716)	-74.0%
Total Costs and Expenses	2,186,141	81.0 %	2,405,297	92.3 %	(219,156)	-9.1 %

Costs of Revenues

Our overall cost of revenues as a percentage of our total revenues decreased from 54.1% to 46.0% for the three months ended September 30, 2014 and 2015, respectively. Likewise, our gross margin increased from 45.9% to 54.0% for the three months ended September 30, 2014 and 2015, respectively. The improvement in our overall gross margin was due mainly to strong margin contribution from the inland transportation management services and shipping and chartering services during the three months ended September 30, 2015, as these new business segments feature much lower overhead than our shipping agency business.

General and Administrative Expenses.

Our general and administrative expenses consist primarily of salaries and benefits, business development expenses, office rent, office expenses, regulatory filing and listing fees, legal, accounting and other professional service fees. The slight decline in our G&A expenses for the three months ended September 30, 2015 as compared to the same period of 2014 was due mainly to effective cost control procedures in effect. As a percentage of revenues, our general and administrative expenses decreased from 36.1% to 34.5% for the three months ended September 30, 2014 and 2015, respectively.

Selling Expenses.

Our selling expenses consist primarily of commissions for our operating staff to the ports at which we provide services. Our selling expenses decreased for the three months ended September 30, 2015 as compared to the same period of 2014 was due mainly to a decline in shipping agency revenues and a decline in the total number of ships we

served as discussed above.

Critical Accounting Policies

We prepare the Company's unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These accounting principles require us to make judgments, estimates and assumptions on the reported amounts of assets and liabilities at the end of each fiscal period, and the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable.

There have been no material changes during the quarter ended September 30, 2015 in our significant accounting policies to those previously disclosed in the Company's June 30, 2014 annual report.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Revenues from shipping agency services are recognized upon completion of services, which coincides with the date of departure of the relevant vessel from port. Advance payments and deposits received from customers prior to the provision of services and recognition of the related revenues are presented as advances from customers.

Revenues from shipping and chartering services are recognized upon performance of services as stipulated in the underlying contract.

Revenues from inland transportation management services are recognized when commodities are being released from the customer's warehouse.

Revenues from ship management services are recognized when the related contractual services are rendered.

Basis of Consolidation

The Company's unaudited condensed consolidated financial statements include the accounts of the parent and its subsidiaries. All inter-company transaction and balances are eliminated in consolidation. Sino-China is considered to be a Variable Interest Entity (VIE) and we are the primary beneficiary. Because of the contractual arrangements, our Company had a pecuniary interest in Sino-China that requires consolidation of our and Sino-China's financial statements. The accounts of Sino-China are consolidated in the accompanying consolidated financial statements pursuant to Accounting Standard Codification ("ASC") 810-10, "Consolidation". As a VIE, Sino-China's revenues are included in our total revenues, its net loss from operations is consolidated with our Company's, and our net income before non-controlling interest in its net loss includes all of Sino-China's net loss. Our non-controlling interest in its net loss is then subtracted in calculating the net income attributable to our Company.

Accounts Receivable

Accounts receivable are recognized at net realizable value. We maintain allowances for doubtful accounts for estimated losses resulting from the failure of customers to make required payments in the relevant time period. We review the accounts receivable on a periodic basis and record general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, we consider many factors, including the age of the balance, the customer's historical payment history, its current credit-worthiness and current economic trends. Receivables are considered past due after 365 days. Accounts are written off only after exhaustive collection efforts.

Translation of Foreign Currency

The accounts of our Company and Sino-China are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Our functional currency is the U.S. dollar, while Trans Pacific and Sino-China report their financial position and results of operations in Renminbi. The accompanying unaudited condensed consolidated financial statements are presented in U.S. dollars. Foreign currency transactions are translated into U.S. dollars using the fixed exchange rates in effect at the time of the transaction. Generally foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the consolidated statements of operations. We translate foreign currency financial statements of Sino-China, Trans Pacific, Sino-Global HK and Sino-Global AUS in accordance with ASC 830-10, "Foreign Currency Matters". Assets and liabilities are translated at current exchange rates quoted by the People's Bank of China at the balance sheet dates and revenues and expenses are translated at average exchange rates in effect during the periods.

Taxation

We follow the provisions of ASC 740-10, "Accounting for Income Taxes", which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740-10, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position would be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. ASC 740-10 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

The implementation of ASC 740-10 resulted in no material liability for unrecognized tax benefits and no material change to the beginning retained earnings of our Company. Our Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. We use the liability method of accounting for income taxes in accordance with US GAAP. Deferred taxes, if any, are recognized for the future tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position would be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

2016 Trends

We expect the difficult macroeconomic conditions in fiscal year 2015 to continue in to fiscal year 2016; and we believe competition and rising labor costs in the PRC will continue to pressure our operating model. While fiscal year 2015 marks the second consecutive year of net income in the history of Sino-Global, we believe we must continue to diversify our service platform; reduce our dependency on businesses and cash flows that are generated from China; and develop complementary shipping and/or logistics services that are based in the US.

We have developed, and will continue to foster, strong strategic relationship with vessel owners, such as with Mr. Weixiong Yang, a vessel owner and a shareholder of Sino-Global as a result of his recent purchase of 500,000 shares of our restricted common stock in July 2015, to identify areas where Sino-Global could provide its shipping services to them .

Results of Operations

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Revenues. Our total revenues increased by \$93,293 or 3.6% from \$2,605,925 for the three months ended September 30, 2014 to \$2,699,218 for the comparable period in 2015. The increase was due mainly to higher revenues generated from shipping and chartering services, and inland transportation management services, partially offset by lower revenues from our shipping agency business services.

Revenues from our inland transportation management services increased by \$246,981 from \$946,634 for the three months ended September 30, 2014 to \$1,193,615 for the same period in 2015. The increase was due mainly to the delivery of inland transportation management services to a new customer, Tengda Northwest Ferroalloy Co., Ltd., since the quarter ended September 2014.

For the three months ended September 30, 2015, we recognized revenues of \$1,059,385 from our shipping agency services, as compared to \$1,611,704 for the three months ended September 30, 2014. The decrease was due mainly to the softening of the Chinese economy and its import of iron ore. The number of ships we served decreased from 70 to 10 for the three months ended September 30, 2014 and 2015, respectively.

Revenues from our ship management services were nil and \$47,587 for the three months ended September 30, 2015 and 2014, respectively.

For the three months ended September 30, 2015, we generated revenues and gross profit of \$446,218 and \$241,708 from time charter agreements in connection with the proposed vessel acquisition. However, we did not deliver any shipping and chartering services during the three months ended September 30, 2014.

Total Operating Costs and Expenses. Our total operating costs and expenses decreased by \$219,156 or 9.1% from \$2,405,297 for the three months ended September 30, 2014 to \$2,186,141 for the three months ended September 30, 2015. This decrease was primarily due to decreases in our costs of revenues and selling expenses, as discussed below.

Costs of Revenues. Our cost of revenues decreased by \$168,477 or 12.0% from \$1,409,153 for the three months ended September 30, 2014 to \$1,240,676 for the three months ended September 30, 2015. The decline in our overall cost of revenues was due mainly to lower revenues from our shipping agency services; and the nature of our inland transportation management services, which feature lower overhead than our shipping and chartering services.

General and Administrative Expenses. Our general and administrative expenses decreased by \$8,963 or 1.0% from \$939,805 for the three months ended September 30, 2014 to \$930,842 for the three months ended September 30, 2015. This decrease was mainly due to effective cost control procedures in effect.

Selling Expenses. Our selling expenses decreased by \$41,716 or 74.0% from \$56,339 for the three months ended September 30, 2014 to \$14,623 for the three months ended September 30, 2015, mainly due to lower commission

payments related to the sales decrease.

Operating Income. We had an operating income of \$513,077 for the three months ended September 30, 2015, compared to an operating income of \$200,628 for the comparable period ended September 30, 2014. The increase was due mainly to favorable service mix with strong margin contribution from the shipping and chartering and inland transportation management services.

Financial Expense, Net. Our net financial expense was \$117,207 for the three months ended September 30, 2015, compared to net financial expense \$62,382 for the same period ended September 30, 2014. We have operations in the US, Canada, Australia, Hong Kong and China. Our net financial expense reflected the foreign currency exchange effect for each reporting period indicated.

Taxation. Our income tax expense was \$240,822 for the three months ended September 30, 2015, compared to income tax benefit of \$27,255 for the three months ended September 30, 2014. The increase in income tax expense was due mainly to increased taxable income from the inland transportation management