

Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

INTERNET BUSINESS INTERNATIONAL INC  
Form 10QSB/A  
June 10, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB/A

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

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: 0-20259

INTERNET BUSINESS'S INTERNATIONAL, INC.  
(Exact name of Company as specified in its charter)

Nevada 33-0845463  
(State or jurisdiction of incorporation ( I.R.S. Employer  
or organization) Identification No.)

4634 South Maryland Parkway, Suite 101, Las Vegas, Nevada 89119  
(Address of principal executive offices) (Zip Code)

Company's telephone number: (702) 968-0008

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common  
stock, \$.001 par value

Indicate by check mark whether the Company (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 Company was required to file such reports),  
and (2) been subject to such filing requirements for the past 90 days.  
Yes X No .

As of September 30, 2001, the Company had 282,736,029 shares of  
common stock issued and outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION	PAGE
ITEM 1. FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2001 AND JUNE 30, 2001	3
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000	4

# Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000	5
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	23
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	26
PART II - OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	26
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS	26
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	27
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	27
ITEM 5. OTHER INFORMATION	27
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	27
SIGNATURE	28
PART I.	
ITEM 1. FINANCIAL STATEMENTS.	

INTERNET BUSINESS'S INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited-Restated)

	September 30 2001	June 30 2001
Assets		
Cash and cash equivalents	\$ 243,893	\$ 258,019
Accounts receivable, net	221,555	200,968
Inventories	258,700	166,307
Mortgage notes held for sale	5,914,171	6,929,724
Prepaid expenses and other	99,073	106,092
 Total current assets	 6,737,972	 7,661,110
Property and equipment, net	2,010,806	1,869,761
Intangible assets, net	2,434,408	2,543,697
	\$ 11,182,606	\$12,074,588
Liabilities and Stockholders' Equity		
Accounts payable	\$ 573,062	\$ 559,292
Accrued liabilities	114,964	40,963
Revolving line of credit	5,214,595	6,230,678
Current portion of long-term debt	10,205	14,048
Deferred revenues	38,444	56,966
Other current liabilities	0	0

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

Total current liabilities	5,951,270	6,901,947
Long-term debt	323,520	1,168,453
Stockholders' equity:		
Preferred stock, par value \$100.00 per share; 1,000,000 shares Authorized: There are no issued and outstanding. as of this date.	0	0
Common stock, par value \$0.01 per share; 349,000,000 shares authorized; 282,736,029 shares issued and outstanding at September 30, 2001 and June 30, 2001	2,827,360	2,672,360
Additional paid-in capital	3,669,490	3,669,490
Accumulated deficit	(1,589,034)	(2,337,662)
Total stockholders' equity	4,907,816	4,001,188
Total liabilities and stockholders' equity	\$ 11,182,606	\$12,074,588

The accompanying notes are an integral part of these financial statements

### INTERNET BUSINESS'S INTERNATIONAL, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited-Restated)

	Three Months Ended	
	September 30 2001	September 30 2000
Revenues	\$ 1,984,659	\$ 1,082,212
Cost and expenses:		
Cost of revenues	6,130	0
Selling, general and administration	1,618,814	2,086,911
Depreciation and amortization	243,697	242,159
Total costs and expenses	1,868,641	2,329,070
(Loss) income from operations	116,018	(1,246,858)
Other income (expense):		
Other income or (expense)	9,156	308,412
Interest income	0	61,142
Other expenses	648	(4,241)
Total other income, net	8,508	365,313
Income (loss) before minority interest	(881,545)	2,079
Minority interest in loss of subsidiaries	0	(19,658)
Net (loss) income	124,526	(861,887)
Net loss (income) per common share	Nil	Nil
Weighted average number of common shares Outstanding	277,569,362	189,571,337

The accompanying notes are an integral part of these financial statements

### INTERNET BUSINESS'S INTERNATIONAL, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited-Restated)

	Three Months Ended	
	September 30	September 30

Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

	2001	2000
Cash Flows From Operating Activities:		
Net (loss) income	\$ 124,526	\$ (861,887)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	243,697	242,159
Reserve for loss on notes receivable	79,960	
Reserve for loss on mortgage loans receivable	100,000	
Gain on sale of equity investment	0	(308,412)
Minority interest	0	(19,658)
Changes in operating assets and liabilities:		
Accounts receivable	(221,555)	51,133
Inventories	(258,700)	0
Mortgage loans receivable net	(779,536)	595,677
Prepaid expenses and other	99,073	26,724
Accounts payable	573,062	65,125
Accrued liabilities	114,964	18,170
Deferred revenues	38,444	(18,061)
Other current liabilities	(10,205)	0
Net cash (used in) provided by operating Activities	103,730	(209,030)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(141,045)	(247,302)
Investment in intangible assets	109,289	0
Proceeds from sale of investment in company	0	420,562
Investments in companies' stock	0	(1,025,357)
Net cash used in investing activities	(31,756)	(852,097)
Cash Flows From Financing Activities:		
Net repayments under revolving line of credits	(101,660)	(742,407)
Net repayment of long-term debt	0	115,424
Collection of notes receivable	0	133,309
Issuance of common stock	15,500	0
Net cash (used in) provided by financing Activities	(86,160)	(493,674)
Net decrease in cash	(14,186)	(1,554,801)
Cash, beginning of period	258,019	1,661,963
Cash, end of period	243,833	107,162

The accompanying notes are an integral part of these financial statements

INTERNET BUSINESS'S INTERNATIONAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited-Restated)

1. Description of Business and Change in Control

Prior to December 31, 1997, Internet Business's International, Inc. (the "Company or IBUI") was in the food product manufacturing business formerly known as, International Food and Beverage, Inc. In November 1998, new stockholders bought majority control from the previous Chief Executive Officer through a private transaction. Immediately thereafter, the former CEO resigned and the new stockholders assumed the executive management positions. In December 31, 1998, after new management was in place, a decision was made to change the Company's principal line of business from a manufacturing business to a high

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

technology company. In connection with the change in business, the Company changed its name from International Food & Beverage, Inc. to Internet Business's International, Inc., and reincorporated the Company on December 8, 1998 in the state of Nevada. The Company, after January 1, 1999 began plans to offer Internet based e-commerce services. In April of 1999, the Company announce its first e-commerce site and was engaged in the development, operation and marketing of a number of commercial activities. The Company currently owns and operates four reporting segments made up of subsidiaries and or divisions. The four divisions are as follows: Lending on Line (which includes real estate loans and equipment leasing), Internet Service Provider (which includes a national Internet access dial-up service, wireless high speed Internet access in Las Vegas, Nevada and Woodland, California, and Internet web design and hosting), E-commerce (which includes auction sites, B2C and B2B Internet transaction, and reverse auction sites for Europe and the United States), Direct Marketing (which includes the direct marketing of long distance phone services, computers with Internet access, wireless high speed Internet access and bandwidth), and Internet web design hosting). The Company has 6 offices in the US and 1 in Europe and more than 40 employees.

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Significant intercompany balances and transactions are eliminated in consolidation. Affiliated companies in which the Company does not have a controlling interest are accounted for using the equity method.

The Company's consolidated financial statements include Global GPP Corp., an 80% owned subsidiary, which operated from March 2000 to March 2001, when it ceased operations. The financial information of Global is included in the E Commerce section of the Company's financial statements, along with the Company's other E Commerce activities.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowances, doubtful accounts, notes receivable, and for mortgage loans receivable. Actual results could differ from those estimates.

#### Change in Revenue Recognition

Prior to July 1, 2001 the revenue for the Mortgage Division was booked as follows: the mortgage loan amount funded by the Company was booked as revenue on the date of funding. After that date, the net proceeds received from the sale of the mortgage loans were booked as revenue upon receipt of those funds by the Company. This has a significant impact on the revenue for the Company, but does not impact the net income (loss) for the Company. This financial statement has revised figures for June 30, 2001 and Septmeber 30, 2000 which incorporates the changes of revenue recognition for the Mortgage Division.

#### Reclassifications

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

### Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments with an original maturity date of three months or less to be cash equivalents.

### Mortgage Loans Held for Sale

Loans held for sale include originated mortgage loans intended for sale in the secondary market. Loans held for sale are recorded at the lower of aggregate cost or fair value.

### Interest Accrual

Accrued interest ceases upon sale of the Mortgage Loan.

### Allowance for Loan Losses

The allowance for loan losses represents management's estimate.

SFAS 134 requires mortgage banking enterprises to classify securities as held-to-maturity, trading, or available-for-sale, depending on the entity's intent and ability to hold the securities. If the mortgage banking enterprise commits to sell a mortgage-backed security before or during the securitization process, the entity must classify the security as trading.

### Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful life of the assets, which is generally three to five years for computers and computer related equipment and five to seven years for other non-computer furniture and equipment. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the term of the lease, ranging from one to ten years.

### Intangible Assets

Intangible assets consist primarily of acquired customer bases, long-term marketing agreements, goodwill, and other items. Customer bases acquired directly are valued at cost, which approximates fair value at the time of purchase. When material intangible assets, such as customer bases and goodwill are acquired in conjunction with the purchase of a company, IBUI undertakes a study by an independent third party to determine the allocation of the total purchase price to the various assets acquired and the liabilities assumed. The costs assigned to intangible assets are being amortized on a straight-line basis over the estimated useful lives of the assets, which is 36 months for substantially all remaining intangible assets as of June 30, 2001. Goodwill and other intangible assets are periodically reviewed for impairment to ensure they are appropriately valued. Conditions that may indicate an impairment issue exists include an economic downturn, changes in the churn rate of subscribers or a change in the assessment of future operation. In the event that a condition is identified that may indicate an impairment issues exists, an assessment is performed using a variety of methodologies, including cash flow analysis, estimates of sales proceeds and independent appraisals.

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

### Additional Paid In Capital

As of the end of March 2000, the Company issued an additional 7,000,000 shares of common stock in a private placement to a qualified investor with net proceeds provided to the Company of \$3,382,560.

From March 2000 through the end of this quarter ending March 31, 2002 there was no additional paid in capital.

### Revenue Recognition

IBUI recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibles is probable.

For ISP services, these criteria are met monthly as our service is provided on a month-to-month basis and collection for the service is generally made within 30 days of the service being provided. Narrowband access revenues consist of monthly fees charged to customers for dial-up Internet access. Narrowband access revenues also include monthly service fees, any associated equipment revenues for the Internet appliance and wireless access services provided as part of the company's marketing initiative and equipment fees. Broadband access revenues consist of fees charged for high-speed, high-capacity access services including DSL, fixed wireless, and dedicated circuit services, installation, termination fees and fees for equipment. Web hosting revenues consist of fees earned by leasing server space and providing web services to companies and individuals wishing to present a web or e-commerce presence. Advertising, content and electronic commerce revenues are recorded as earned.

For lending on line, revenue principally represents closed-loan fees paid by Lenders that closed loans for consumers that originated through our Websites, for example, net2loan.net. Closed-loan fees are recognized at the time the lender reports the closed loan to us. Additional revenue is derived from on line leasing, and is recognized as the services are performed.

Revenue from direct marketing - Fees are earned from products and or services sold are only recognized as revenue upon receipt of those funds.

### Advertising Expense

All advertising costs are expensed when incurred.

### Concentration of Credit Risk

The Company is subject to credit risk through trade receivables. Monthly Internet access fees and web hosting are generally billed to the customer's credit card, thus reducing the credit risk. The Company routinely assesses the financial strength of significant customers and this assessment, combined with the large number and geographic diversity of its customers, limits the Company's concentration of risk with respect to trade accounts receivable.

### Income Taxes

The Company accounts for income taxes under the asset and liability approach where deferred income tax assets and liabilities reflect the future tax consequences, based on enacted tax laws, of the temporary differences between financial and tax reporting at the balance sheet date.

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

### Earnings per Share

Basic earnings per share are computed by dividing net income (loss) by the weighted average of common shares outstanding for the period. Diluted earnings per share are computed by adjusting the weighted average number of shares outstanding during the period for all potentially dilutive shares outstanding during the period.

### Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS 133, Accounting for Derivative Investments and Hedging Activities. SFAS 133 establishes a new model for accounting for derivatives and hedging activities and supersedes several existing standards. SFAS 133, as amended by SFAS 137 and SFAS 138, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company does not expect that the adoption of SFAS 133 will have a material impact on its financial statements.

### 3. Business Combinations

The Company's business combinations have been accounted for using the purchase method, and, accordingly, the total purchase price of each acquired company was allocated to the tangible assets and liabilities and identifiable intangible assets based on their estimated fair values as of the closing date of the acquisition. The excess purchase price over the fair values is recorded as goodwill. Results of operations for the acquired companies are included prospectively from the date of acquisition.

In September 2001 the Company organized Guarantee Capital Group. ("Guarantee") which acquired the computer, furniture and processing equipment from the new owner of Atlas Capital Corporation for \$30,000. In November 2001 Guarantee had exceeded the capacity of its mortgage banking line. This prevented Guarantee from funding the balance of its processed loans and in December 2001, 20 its 24 employees were laid off. Guarantee has a new credit facility and is in the process of rebuilding its staff, which should take place before the end of June 2002.

In September 2001 the Company organized a new marketing subsidiary, 1st2 Market Incorporated and ceased operating its predecessor Allstates Communications Inc. The new subsidiary will only market the Company's products whereas Allstates marketed cell phones for cellular phone companies.

In March 2001 IBUI ceased to operate Global GPP Corporation and closed its corresponding operation in Europe. The Company organized a new corporation, which is a wholly owned subsidiary, Global Construction Buying Group, whose main asset is the equipment acquired from Global GPP Corporation.

In October 2000 IBUI signed an acquisition agreement with Auction-Sales.Com. The Company invested \$180,000 in Auction-Sales.Com and in December 2000 rescinded the acquisition due to undisclosed debts. The Company is currently suing for the return of the funds and believes that if it prevails the debt could be collected.

In October 2000 IBUI acquired the auction web site operations of Sonic Auction Company for a purchase price of approximately \$5,000. With this acquisition, the Company acquired a database and a functioning



## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

web auction site. The Company issued 500,000 shares of restricted common stock, to acquire Sonic Auction Company. This site ceased operation in March of 2001.

During the quarter ended September 2000, the Company issued 4,113,871 shares of restricted common stock for services valued at \$41,139.

In April 2000 IBUI acquired all the outstanding stock of Atlas Capital Corporation, a mortgage-banking company, for 600,000 shares of restricted common stock valued at \$6,000. In connection with the acquisition, the Company acquired assets of approximately \$3,183,000 and assumed liabilities of approximately \$3,179,000. The difference was recorded as intangible assets related to acquisition of trade names, websites, workforce-in-place and is being amortized over 5 years. In August 2001 the Company sold Atlas Capital Corporation with its assets and liabilities.

In March 2000 the Company acquired the assets and assumed certain liabilities of Internet 2xtreme, an Internet Service Provider based in northern California. The total purchase price was \$735,000, which consisted of cash of \$17,635 and 124,589 shares of restricted common stock valued at \$186,888. In connection with the acquisition, the Company recorded intangible assets of approximately \$666,000, which consisted of approximately 4,800 customer accounts, website and workforce-in-place, which are being amortized over 5 years.

In March 2000 the Company acquired 80% of the outstanding shares of Global GPP Corporation for \$500,000. Global GPP owns a business-to-business website, equipment and its strategic agreements with IBM Hungary to market business-to-business services in Eastern Europe.

In February 2000 the Company acquired the assets and assumed certain liabilities of Direct Communications, Inc., a wireless communications company. In addition to assuming certain liabilities, the Company paid cash of \$80,000 and issued 30,000 shares of restricted common stock valued at \$300. Intangible assets purchased totaled \$265,000, consisting of customer lists, website and workforce-in-place and is being amortized over 5 years. These assets and liabilities were transferred to the newly formed and wholly owned subsidiary of the Company, Allstates Communications Inc.

In December 1999 the Company entered into a service agreement to market its services on the Internet for 6,000,000 shares of common stock valued at \$60,000.

In November 1999 the Company acquired an E Commerce website Optical Brigade, an on-line sunglass distribution website, for 5,050,000 shares of restricted common stock valued at \$50,500.

In August 1999 the Company acquired the website Net 2 Loan, an on-line loan processing website for 400,000 shares of restricted common stock valued at \$4,000.

In July 1999 the Company acquired MBM Capital Group for \$72,000 and 112,667 shares of restricted common stock valued at \$1,127. MBM was sold during the fiscal year of acquisition for a \$150,000 note. After the sale MBM ceased operations and the Company considers the note valueless.

In June 1999, the Company acquired the assets of L.A. Internet, a southern California-based Internet Service Provider, which included customer accounts, trade name, websites, etc. for \$545,000 in exchange

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

for a reduction of the Note Receivable from Iron Horse Holdings, Inc.  
(see Preferred Stock, Note 8).

### 4. CERTAIN FINANCIAL STATEMENT INFORMATION

	September 30 2001	June 30 2001
Accounts receivable:		
Accounts receivable	\$ 323,375	\$ 396,977
Less: allowance for doubtful accounts	68,675	(196,009)
Accounts receivable, net	258,700	200,968
Mortgage loans held for sale:		
Mortgage loans held for sale	5,994,131	7,049,096
Less: allowance for loan losses	79,960	(119,372)
Mortgage loans held for sale, net	5,914,171	6,929,724
Property and equipment:		
Office furniture and equipment	47,531	47,155
Machinery and computer equipment	2,490,071	2,239,781
Leasehold improvements	10,026	1,726
Less: accumulated depreciation	(536,822)	(418,881)
Property and equipment, net	2,010,806	1,869,781
Intangible assets:		
Capitalized software costs, including		
Websites	1,286,563	1,270,156
Subscriber member bases	1,302,118	1,302,118
Others, including customer lists, existing		
technology, trade names	423,386	423,386
Less: accumulated amortization	(577,659)	(451,963)
Intangible assets, net	2,434,408	2,543,697

### 5. REVOLVING LINES OF CREDIT

The Company had a master mortgage loan warehousing agreement (credit facility) with a lender that provided a maximum of \$5,000,000 under specified conditions to fund residential mortgages to customers. The residential loans serve as collateral, and funds are advanced up to 98% of the unpaid principal amount of the qualified mortgage loan granted to the customer. The credit facility bears interest at the Prime Rate (9.5% at June 30, 2000) plus 1.0% for loans outstanding for 60 days or less. The interest rate increases to Prime Rate plus 4.0% for loans outstanding between 60 and 120 days, and increases to Prime Rate plus 6.0% for amounts outstanding over 120 days. At June 30, 2001 and 2000, amounts outstanding under the credit facility were \$0 and \$2,579,346, respectively. Subsequent to June 30, 2000, the credit facility was amended to reduce the maximum available facility to \$3,500,000, and the Company did not renew the line when it came up for renewal during the fiscal year ending June 30, 2001.

On February 1, 2000, the Company entered into a Master Repurchase Agreement that provides the Company with a warehouse facility through IMPAC Warehouse Lending Group ("IMPAC"). The IMPAC line provides the Company with an open warehouse credit line (as set forth by IMPAC) for the Company's mortgage originations only. Under the terms of the agreement, the Company must repay the funded amount within 30 days of the date the funds were disbursed with interest at the Prime Rate plus 1.0%. If the funds are not repaid within 30 days, the interest rate increases to Prime Rate plus 3.0% until repaid, and IMPAC reserves the right to sell the loan and any shortfall remains the liability of the

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

Company. The IMPAC line is secured by the mortgage loans funded with the proceeds of such borrowings. The IMPAC line does not have a stated expiration date but is terminable by either party upon written notice. Amounts outstanding under the IMPAC line at June 30, 2001 and 2000 were \$6,183,228 and \$254,217, respectively.

On March of 2001, the Company entered into a Master Repurchase Agreement that provides the Company with a warehouse facility through Imperial Warehouse Lending Group ("Imperial"). The Imperial line provides the Company with an open warehouse credit line (as set forth by Imperial) for the Company's mortgage originations only. Under the terms of the agreement, the Company must repay the funded amount within 30 days of the date the funds were disbursed with interest at the Prime Rate plus 1.0%. If the funds are not repaid within 30 days, the interest rate increases to Prime Rate plus 3.0% until repaid, and Imperial reserves the right to sell the loan and any shortfall remains the liability of the Company. The Imperial line is secured by the mortgage loans funded with the proceeds of such borrowings. The Imperial line does not have a stated expiration date but is terminable by either party upon written notice. Amounts outstanding under the IMPAC line at June 30, 2001 and 2000 were \$ 865,468 and \$ 0, respectively.

In addition, the Company has a bank line of credit that provides for maximum borrowings up to \$125,000. The line of credit is personally secured by certain officers of the Company, and currently bears interest at 11.5% at June 30, 2000 and is due on August 31, 2000. The outstanding balance against the line of credit as of June 30, 2001 and 2000 were \$ 0 and \$125,000, respectively. The Company paid off the line of credit during the fiscal year ending June 30, 2001, because it was no longer required.

All credit facilities and bank line of credit require the Company to maintain certain financial ratios and adhere to specific non-financial requirements. At September 30, 2001, the Company was in compliance with the various covenants contained in the above agreements.

Amounts outstanding under the IMPAC line at September 30, 2001 and June 30, 2001 were \$5,994,131 and \$7,049,096 respectively.

The effective interest rates per quarter for the credit lines listed above were as follows, the interest charge is deducted from the sale proceeds of the funded loans and is booked as a cost of revenue.

Quarter	Prime Rate	Impac	Imperial*	Number of Loans Held over 30 Days
Sept. 30, 2001	6.00%	7.00%	7.00%	0
June 30, 2001	6.75%	7.75%	7.75%	0
March 31, 2001	8.0%	9.0%	9.0%	0
Dec. 31, 2000	9.50%	10.5%	N/A	0

\* Imperial line not in use after September 2001.

### 6. Long-Term Debt

Long-term debt at June 30, 2001 consists of the following:

	Current Portion	Long-term	Total
Note payable to secured by certain Company assets, requiring monthly			

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

payments of \$6,494, including interest  
at 12.25%, due May 5, 2007 \$ 40,506 \$ 283,014 \$ 323,520

During the fiscal year certain real estate loans defaulted. The Company's subsidiary is making payment to the lender that purchased the defaulted loans. These payments are made at the note rate for each loan. The Company has filed claims with the Company's E&O Insurance carriers and until the claims are either denied or paid the company lists these debts as long-term debt. These notes total \$844,933. Effective September 1, 2001 the Company sold the subsidiary Atlas Capital and these liabilities are included in the sale.

### 7. Extraordinary Item

The California Code of Civil Procedure Section 337 states; "Within 4 years (four), an action [must be brought] upon any contract, obligation or liability founded upon a written statement or written contract." The debts of the Company's predecessor (see Note 1) identified were greater than 4 years old and not enforceable. Legal counsel Edgar Scheck reviewed the debts and issued an opinion letter that the prior Company's debts were not collectible based upon this Code Section 337. The Company then extinguished these debts and recognized the amount of the debt as extraordinary income. SFAS 125 lists two circumstances under which a liability is not recognized (which are listed below). The second circumstance states the GAAP basis for which the Company extinguished the debt and recognized the debt amount as extraordinary income in the fiscal year ended June 30, 1999.

Per SFAS 125, defeasance does not result in the extinguishments of a liability. A liability is derecognized only if:

1. The creditor is paid and the debtor is relieved of the obligation.
2. The debtor is released legally either by the creditor or judicially from being the primary obligor.

All gains and losses from extinguishments, if material in amount, receive extraordinary item treatment.

### 8. STOCKHOLDERS' EQUITY

#### Authorized Shares

During November 2000, the board of directors of the Company amended the articles of incorporation to increase the number of authorized shares of common stock to 349,000,000 shares.

#### Stock Issuance

At September 30, 2001 there were a total of 282,736,029 common shares issued and outstanding of which 94,582,267 were restricted.

#### Stock Issuance for services;

During the quarter ended September 30, 2001, the following shares were issued: 15,500,000 as per employment contracts.

The Company had issued and outstanding 267,236,029 shares out by the end of the fiscal year ending June 30, 2001.

During the fiscal year ended June 30, 2001 IBUI did not issue stock for services.

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

During the fiscal year ended June 30, 2000 IBUI agreed to issue approximately 30.4 million shares of restricted common stock for development and advertising services over a period of twelve months. Under the agreement, the shares were issued as certain milestones were met, and the fair value of the shares was recorded as prepaid advertising expense and amortized ratably over the term of the contract.

During the fiscal year ended June 30, 1999 IBUI issued approximately 11.2 million shares of restricted common stock to a consultant in lieu of cash for services provided pursuant to a consulting agreement. The fair value of the shares was recorded as prepaid professional services and amortized ratably over the term of the contract.

The Company complies with the provisions of Emerging Issues Task Force ("EITF") Issue No. 96-18, Accounting for Equity Instruments Issued to Other Than Employees for Acquiring, or in Conjunction with, Selling Goods or Services ("EITF 96-18"), with respect to stock issuances to such non-employees, whereby the value of the services was determined as a reliable measurement of fair value.

Stock Issuance for acquisitions see Note 3. Business Combinations.

### Preferred Stock

On December 15, 1998, the Company entered into an agreement with Iron Horse Holdings, Inc. ("IHHI"), a privately held company in which officers or family members of the officers of the Company have minority stock ownership, for IHHI to purchase 23,900 shares of the Company's preferred stock with a par value of \$100 per share, in exchange for a promissory note receivable from IHHI in the amount of \$2,500,000. The difference between the par value of the shares and the purchase price is treated as additional paid-in-capital. Shares purchased under the agreement are to be issued to IHHI or its designee. The promissory note receivable bears interest at 9% per annum, and is secured by a blanket security agreement executed by IHHI and perfected by filings as specified by law. Until such note is paid in full, IHHI shall pay the 3% coupon on such shares as are issued under the agreement directly to the shareholder(s) of record at the time such payment is due. During the fiscal year ended June 30, 2001, the Company received payment in full on the note executed by IHHI and IHHI converted the preferred into common stock. There are no preferred shares issued and or outstanding as of June 30, 2001.

The Company acquired 100% of LA Internet, Inc. in June 1999 for \$525,000 from IHHI, which was credited towards the note that was owed by IHHI to the Company.

During the fiscal year ended June 30, 2000 the Company received the following payments on the note executed by IHHI,

Date	Balance	Payment	Interest Paid	Form of payment
June 15, 1999	\$240,000			Credit
June 15, 1999	\$525,000			Credit - LA Internet
Total	\$765,000			

Date	Balance	Payment	Interest Paid	Form of payment
------	---------	---------	---------------	-----------------

Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

June 30, 1999	\$1,735,000			
Sept. 30, 1999	\$1,464,754	\$270,246	\$39,037	Cash
Dec. 31, 2000	\$1,194,508	\$270,246	\$32,957	Cash
March 31, 2000	\$ 924,262	\$270,246	\$26,876	Cash
June 30, 2000	\$ 654,009	\$270,253	\$20,796	Cash
Total	\$ 654,009	\$1,080,991	\$119,666	

During the fiscal year ended June 30, 2001 the Company received the following payments on the note executed by IHHI,

Date	Balance	Payment	Interest Paid	Form of
June 30, 2000	\$ 654,009			
Sept. 30, 2000	\$ 490,509	\$163,500	\$14,715	Cash
Dec. 31, 2000	\$ 327,009	\$163,500	\$11,036	Cash
March 31, 2001	\$ 163,509	\$163,500	\$ 7,357	Cash
June 30, 2001	\$ 0	\$163,509	\$ 3,679	Cash
Total	\$ 0	\$654,009	\$36,787	

9. INCOME TAXES

The provision for income taxes for the first quarter ended September 30 and the year ended June 30, 2001 consist of the following (there were no provisions for income taxes on the financial statements due to the net loss carry forward from the previous years operations):

	September 30 2001	June 30 2001
Current income tax expense:		
Federal	\$ 42,339	\$ 269,795
State	0	0
	42,339	269,795
Deferred income tax expense:		
Federal	\$ 0	\$ 0
State	0	0
	0	0
	\$ 0	\$ 0

Amounts for deferred income tax assets and liabilities as follows:

Assets	\$ 42,339	\$ 269,795
Valuation allowance	(42,339)	(269,795)
	0	0
Liabilities	0	0
Net tax asset or liability	\$ 0	\$ 0

Deferred income tax assets consist primarily of net operating loss carry forwards. The Company has provided for a full valuation allowance on the deferred income tax assets as the realization of such benefits are uncertain. Such carry forwards expire beginning in 2004.

During the first quarter ended September 30, 2001 and the year ended June 30, 1999, the Company excluded the forgiveness of debt income from taxable income pursuant to Internal Revenue Code Section 108(A)(1)(B) and 108(B).

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

### 10. COMMITMENTS

The Company leases certain of its office facilities and certain equipment under the terms of noncancellable operating leases, which expire through May 2003. Lease payments under these agreements totaled \$ 176,095 and \$138,276 for the years ended June 30, 2001 and 2000.

The future minimum rental commitments at June 30, 2001 under these leases are as follows:

Year Ending June 30

June 30, 2002	133,632
June 30, 2003	80,503
	\$214,135

### 11. SEGMENT INFORMATION

In accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," management has determined that there are four reportable segments based on the customers served by each segment: Full service internet service provider (ISP), mortgage banking business, and business-to-business ("B2B") provider and business-to-consumer ("B2C") provider. Such determination was based on the level at which executive management reviews the results of operations in order to make decisions regarding performance assessment and resource allocation.

Full service Internet service provider serves customers requiring Internet access in the western United States through dial-up, and high-speed wireless; web hosting and web design. Mortgage banking business includes online mortgage loan origination, processing, servicing and resales. Business-to-business provider primarily provides reverse auction services to foreign companies wishing to purchase materials and supplies in the United States. Business-to-consumer provider primarily consists of cellular phone service origination fees and sales.

Certain general expenses related to advertising and marketing, information systems, finance and administrative groups are not allocated to the operating segments and are included in "other" in the reconciliation of operating income reported below. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2). Information on reportable segments is as follows:

	Three Months Ended	
	September 30 2001	September30 2000
Full-service ISP		
Revenue	\$ 1,021,100	\$ 792,572
Operating income	\$ 243,651	\$ 160,474
Mortgage loan originations held for resale		
Revenue	\$ 782,532	\$ 109,354
Operating income	\$ 124,759	\$ (515,734)
E Commerce (B-to-b/c)		
Revenue	\$ 55,461	\$ 0
Operating income	\$ 1,146	\$ (99,789)

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

Marketing (B-to-b/c)		
Revenue	\$ 9,264	\$ 180,286
Operating income	\$ (190,871)	\$ (164,226)
Other		
Revenue	\$ 116,302	\$ 0
Unallocated expenses	\$ (54,159)	\$ (627,583)
Total		
Revenue	\$ 1,984,659	\$ 6,899,937
Operating income	\$ 124,526	\$ (1,246,858)

### 12. OTHER EVENTS

#### a. PMCC

On August 2, 2000, the Company announced that it had entered into an agreement to purchase 2,460,000 shares of common stock of PMCC Financial Corp. ("PMCC"), a full-service mortgage banking company, from PMCC's former chairman of the board, Ronald Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust, which represents 66.36% of the 3,707,000 PMCC shares outstanding. The aggregate purchase price of \$3,198,000 was to be paid in cash to the seller by the Company as follows: \$700,000 at date of closing; \$306,857 for each of the seven installment payments to be paid on the 30th, 60th, 90th, 120th, 150th, 180th and 210th days following the close; \$175,000 on each of the 240th and 270th day after the date of the closing. Shares of PMCC, a listed AMEX company, were not trading at the time of the agreement. In the event that three months after closing, if PMCC's shares were not actively trading on the AMEX or NASDQ exchanges and the Company had not merged PMCC with the Company or any of the Company's subsidiaries, the purchase price was to be reduced by the amount of the final two \$175,000 payments.

Also on July 28, 2000, in a separate transaction, the Company entered into a stock purchase agreement with an unrelated individual whereby the Company would sell up to 370,000 PMCC shares that the Company either owned or would eventually own, for total consideration of \$1,387,500. Shares of PMCC stock sold by the Company would be released to the buyer in proportion to payments received.

As of December 31, 2000, the Company received payments under the July 28, 2000 agreement of \$559,812 and the Company released 149,283 shares of PMCC stock that it owned. The gain on the sale of the PMCC stock of \$410,529 has been included in revenues for the period ended December 31, 2000.

The Company on March 2, 2001 filed an action against Ronald Friedman and The Ronald Friedman 1997 Grantor Retained Annuity Trust in U.S. District Court, in Orange County, California for rescission of the purchase of the PMCC stock agreement and return of \$1,006,857 paid by the Company. On August 16, 2001 Ronald Friedman, Robert Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust filed an action against the Company for the balance of the price under the contract in the amount of \$2,191,143. This action was filed in the U.S. District Court for the Southern District of New York. In February 2002 the New York case was transferred to California and consolidated with the case filed by the Company in Orange County, Caalifornia. The Company feels that it will prevail in these actions.

#### b. IBC



## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

On August 11, 2000, the Company entered into an agreement to acquire all of the outstanding shares of International Business Co., a software developer that streamlines B2B e-commerce, in exchange for 2,000,000 shares of restricted Company shares to be held in escrow. Between September 1, 2000 and March 1, 2001, the Company was able to unilaterally cancel the contract if dissatisfied with the seller's performance. The Company canceled the purchase during the cancellation period agreed in the escrow.

### c. Auction-Sales.Com, Inc.

On October 19, 2000, the Company entered into a Stock Purchase Agreement with Auction-Sales.Com, Inc. a Delaware corporation and its majority shareholder, Zahid Rafiq (collectively, "Seller"), for the purchase by the Company of 96.62% of the outstanding and treasury shares of common stock of Auction-Sales.Com, Inc., in exchange for shares of common stock of the Company.

This acquisition was rescinded in December 2000. and the necessary documents were filed with the SEC. The site was retained until the funds invested by the Company are returned which management has very low expectations of occurring.

## 13. OTHER AGREEMENTS

### a. Washington State Hotel and Motel Association.

The agreement, entered into in the ordinary course of business, with the Washington State Hotel and Motel Association, dated October 4, 2000, provides the use of the GGPP reverse auction site as a platform for hotel association members purchasing products needed for their different hotel properties. This method of purchasing allows the suppliers of products the chance to sell products to the buyers in competition with one another; the net effect is that the buyers would select the supplier with the lowest per unit cost. This reduces the cost of supplies and thereby should increase their potential of profit. This agreement covers the modification of the GGPP website for use by the Association, and does not involve any payment by the Company.

### b. JWC Construction

The agreement, entered into in the ordinary course of business, with the JWC Construction Company of Poland, dated March 9, 2001 will enable companies to list their purchasing requirements on projects using the reverse auction platform. This method of purchasing allows the suppliers of products the chance to sell products to the buyers in competition with one another; the net effect is that the buyers would select the supplier with the lowest per unit cost. This reduces the cost of supplies and thereby should increase the purchaser's potential profit. This agreement covers the modification of the Construction Buying Group website for use by the Construction industry, and does not involve any payment by the Company.

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

The following discussion should be read in conjunction with the financial statements of the Company and notes thereto contained elsewhere in this report.

### Current Operations

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

The Company currently operates four reporting divisions:

### Corporate Headquarters

4634 S. Maryland Pky, Suite 107  
Las Vegas, Nev. 89119

### West Coast Headquarters

3900 Birch Street, Suite 103  
Newport Beach, Ca. 92660

### International Headquarters

3 Boicho Voivoda str., 1024 Sofia, Bulgaria

(1) Internet Service Provider (which includes a national dial-up ISP; a wireless high speed ISP in Las Vegas, NV, Moreno Valley, CA, and Woodland, CA; and Internet web design and hosting businesses.)

2X Inc, AKA LA Internet, Inc.  
550 Carson Plaza Drive Suite 127  
Carson. Ca. 90746

dba BeyonDSL  
4634 S Maryland Pkwy, Suite 107, LV, NV 89119  
725 Main St. Suite 12, Woodland, Ca. 95695

(2) Mortgage Loan On-line Lending (which includes real estate loans and equipment leasing.)

Guarantee Capital Group, Corp.  
18004 Sky Park Circle, Suite 170, Irvine, Ca. 92614

(3) Marketing (which includes the direct marketing of long distance phone services, computers with Internet access, wireless high speed Internet access and bandwidth.)

First 2 Market  
4634 S Maryland Pkwy, Suite 107, LV, NV 89119

(4) E Commerce (which includes auction sites, B2C and B2B eCommerce, and reverse auction sites for Europe and the United States),

Ace Optics  
1077 Goodman Rd.,  
Hornlake, Mississippi 38637

The Company employs over 40 people and has 7 offices, six in the US and one in Europe

Results of Operations - Comparison of Quarter Ended September 30, 2001 to Quarter Ended September 30, 2000.

#### (a) Overall

Prior to this quarter, the Company recognized the gross loan amount funded as revenue; effective July 1, 2001 the Company will only recognize the net proceeds received from the sale of that loan when that loan is sold. This change does not affect the net income (loss) for the period and the net results can be compared to prior periods. The revenue for the September 30, 2000 has been restated to

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

reflect the change in revenue recognition.

Revenues for the first quarter ended September 30, 2001 of \$1,984,659 increased approximately 183% when compared with revenues of \$1,082,212 in the prior year. The revenue restatement was due to the change in revenue recognition for mortgage loan originations. The interest rates for the mortgages loans since March of 2001 has remained from the low 6% to high 7% range though the end of September 2001 and it is expected for the rates to remain in this range through out the end of 2001.

Selling, general and administrative expenses for the first quarter ending September 30 2001 of \$1.618 million is a decrease 28% of when compared to the same expenses of \$2.086 million for the same time period for the previous fiscal year 2000.

The resulting profit for the three-month period ended September 30, 2001 of \$124,526 was a significant increase when compared to the loss of \$(861,887) reported for comparable quarter ended September 30, 2000.

### (b) Comparison by Segment

Management has determined that there are four reportable segments based on the customers served by each segment: Full service internet service provider (ISP), mortgage banking business, and e-commerce ("B2BC") business-to-business and or to-consumer provider and marketing ("B2B") business-to-business and ("B2C") business-to-consumer. Such determination was based on the level at which executive management reviews the results of operations in order to make decisions regarding performance assessment and resource allocation.

Certain general expenses related to advertising and marketing, information systems, finance and administrative groups are not allocated to the operating segments and are included in "other" in the reconciliation of operating income reported below. Information on reportable segments is as follows:

	Three Months Ended	
	September 30 2001	September 30 2000
Full-service ISP		
Revenue	\$ 1,021,100	\$ 792,572
Operating income	\$ 243,651	\$ 160,474
Mortgage loan originations held for resale		
Revenue	\$ 782,532	\$ 109,354
Operating income	\$ 124,759	\$ (515,734)
E Commerce (B-to-b/c)		
Revenue	\$ 55,461	\$ 0
Operating income	\$ 1,146	\$ (99,789)
Marketing (B-to-b/c)		
Revenue	\$ 9,264	\$ 180,286
Operating income	\$ (190,871)	\$ (164,226)
Other		
Revenue	\$ 116,302	\$ 0
Unallocated expenses	\$ (54,159)	\$ (627,583)

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

Total		
Revenue	\$ 1,984,659	\$ 1,082,212
Operating income	\$ 124,526	\$ (1,246,858)

The results for the ISP service (see locations and services listed in Current Operations) for the first quarter ended September 30, 2001 of \$1,021,100 is an increase of 128% when compared to the same period ended September 30, 2000 of \$792,572. The increase is from concentration on the high-speed Internet accesses and increase in web sale activities. The profits of \$243,651 for the three months ended September 30, 2001 is a increase of 151.8 % for the same three-month period of the previous fiscal year which reported profits of \$160,474. The improvement in the profit margins is due to the fact that the profit margins are greater in the wireless Internet access then the standard dial up access.

The results for the Mortgage division originations (see locations and services listed in Current Operations) for the first quarter ended September 30, 2001 of \$782,532 is an increase of 717.4% when compared to the same period ended September 30, 2000 of \$109,354. The net income of \$124,759 for the three months ended September 30, 2001 is a significant improvement over the same three-month period of the previous fiscal year which reported a loss of \$(515,734). The increase in the revenue is from the improved marketing of the Mortgage division. The profits were due in part to better management and also selling the former Atlas Capital and the start a new mortgage group named Guarantee Funding.

The results for the E Commerce division (see locations and services listed in Current Operations) for the first quarter ended September 30, 2001 of \$55,461, which didn't report sales for the same period, ended September 30, 2000 of zero revenue. The profits of \$1,146 for the three months ended September 30, 2001 is a significant improvement over the same three-month period of the previous fiscal year which reported a loss of \$(99,789).

The results for the Marketing division (see locations and services listed in Current Operations) for the first quarter ended September 30, 2001 of \$9,264 is and decrease of 194% when compared to the same period ended September 30, 2000 of \$180,286. The main reason for the decrease is the decision to stop selling cell phones and began marketing company products. The loss of \$(190,871) for the three months ended September 30, 2001 is an increase of 115.8 % for the same three-month period of the previous fiscal year which reported a loss of \$(164,226). The increase in the losses was also due to the change over in the marketing of products.

The results for Other Revenue (see locations and services listed in Current Operations) are from a service charge that is generated from the new marketing services that is provided by corporate to its clients. The revenue of \$116,302 for this period ended September 30, 2001 is not to be compared to the prior period ended September 30, 2000, which had no reportable revenue. The loss of \$(54,159) for the three months ended September 30, 2001 is a decrease of \$(573,424) for the same three-month period of the previous fiscal year which reported a loss of \$(627,583). The reduction in costs is from the reduction in the corporate staff and overhead costs.

Liquidity and Capital Resources.

Net cash provided by the operations of the Company was \$124,526 for the three months ended September 30, 2001 versus net cash provided

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

by operating activities of (\$1,246,858) in the comparable prior year period.

### Capital Expenditures.

Other than as set forth below, no material capital expenditures were made during the quarter ended September 30, 2001: (a) purchase infrastructure equipment totaling \$141,025.

### Acquisitions

There were no acquisitions made during the quarter ended September 30, 2001.

### Forward Looking Statements.

The foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations contains "forward looking statements" within the meaning of Rule 175 of the Securities Act of 1933, as amended, and Rule 3b-6 of the Securities Act of 1934, as amended, including statements regarding, among other items, the Company's business strategies, continued growth in the Company's markets, projections, and anticipated trends in the Company's business and the industry in which it operates. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Company's control. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward looking statements, including, among others, the following: reduced or lack of increase in demand for the Company's products, competitive pricing pressures, changes in the market price of ingredients used in the Company's products and the level of expenses incurred in the Company's operations. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained herein will in fact transpire or prove to be accurate. The Company disclaims any intent or obligation to update "forward looking statements."

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument due to fluctuations in interest rates. Market risk is inherent to both derivative and non-derivative financial instruments, and accordingly, the scope of the Company's market risk management includes all market risk sensitive financial instruments.

The Company uses several tools and risk management strategies to monitor and address interest rate risk. Such tools allow the Company to monitor and evaluate its exposure to these risks and to manage the risk profile of its residual interest portfolio in response to changes in the market risk.

The Company measured the sensitivity of the current value of cost of funds (Prime Rate plus 1.5%) to changes in the mortgage interest rate (bond market plus 1.5%) that the Company charges on funded loans, which is reflected with changes in interest rates. The difference in the cost of funds versus the rate the Company funded the mortgage loans could have benefited the company because the cost of funds was less the mortgage interest rate, or the Company could lose

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

money if the cost of funds was more than the mortgage interest rate.

The following table summarizes the sensitivity analysis of change in the fair value of the Company's cost of funds as compared to the residual interest as of September 30, 2001 and June 30, 2001:

	Change In Fair Value As of:	
	September 30 2001	June 30 2001
Prime Rate	6.000%	6.750%
Our Cost of Funds	1.500%	1.500%
Total	7.500%	8.250%
Bond Market	4.575%	5.331%
Consumer Cost of Funds	1.500%	1.500%
Total	6.075	6.831%
Net Impact Benefit (Loss)	(1.425%)	(1.419)%

### PART II.

#### ITEM 1. LEGAL PROCEEDINGS.

Other than as set forth below, the Company is not a party to any material pending legal proceedings other than ordinary routine litigation incidental to the business and, to the best of its knowledge, no such action by or against the Company has been threatened.

The Company on March 2, 2001 filed an action against Ronald Friedman and The Ronald Friedman 1997 Grantor Retained Annuity Trust in Federal Court, in Orange County, California for rescission of the purchase of the PMCC stock agreement and return of \$1,006,857 paid by the Company. On August 16, 2001 Ronald Friedman, Robert Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust filed an action against the Company for the balance of the price under the contract in the amount of \$2,191,143. This action was filed in the U.S. District Court for the Southern District of New York. In February 2002 the New York case was transferred to California and consolidated with the case filed by the Company in Orange County, CA. The Company feels that it will prevail in these actions.

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

The Company made the following issuances of unregistered securities during the quarter ended September 30, 2001:

7,750,000 shares of restricted common stock were issued each to Albert Reda and Louis Cherry as a bonus under each of their employment agreements with the Company. No commissions or fees were paid in connection with these issuances. All of the above sales were undertaken pursuant to the limited offering exemption from registration under the Securities Act of 1933 as provided under Rule 506 of Regulation D by the fact that:

- the sales were made to accredited investors as defined in Rule 502;
- the information specified in paragraph (b)2(ii)(B) and paragraph (b)(2)(ii)(C) of this section was provided to each investor;
- the Company gave each purchaser the opportunity to ask questions and receive answers concerning the terms and conditions of the offering and to obtain any additional information which the

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

Company possessed or could acquire without unreasonable effort or expense that is necessary to verify the accuracy of information furnished;

- at a reasonable time prior to the sale of securities, the Company advised the purchasers of the limitations on resale in the manner contained in paragraph Rule 502(d)2 of this section;
- neither the Company nor any person acting on its behalf sold the securities by any form of general solicitation or general advertising; and
- the company exercised reasonable care to assure that the purchasers of the securities are not underwriters within the meaning of section 2(11) of the Securities Act of 1933 in compliance with Rule 502(d).

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

### 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.

Reports on Form 8-K.

No reports on Form 8-K were filed during the first quarter of the fiscal year covered by this Form 10-Q SB.

Exhibits.

Exhibits included or incorporated by reference herein are set forth in the Exhibit Index.

### SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Internet Business's International, Inc.

Dated: May 28, 2002

By: /s/ Albert R. Reda  
Albert R. Reda, Chief Executive Officer

### EXHIBIT INDEX

Number	Description
2.1	Agreement and Plan of Merger between the Company and Internet Business's International, Inc., a Delaware corporation, dated July 1, 1999 (incorporated by reference

## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

- to Exhibit 2 of the Form 8-K/A filed on November 22, 1999).
- 2.2 Agreement and Plan of Merger and Share Exchange among the Company, Return Assured Incorporated, and IBUI Acquisition Corporation, dated June 4, 2001 (incorporated by reference to Exhibit 2.2 of the Form 10-K filed on October 1, 2001).
  - 3.1 Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Form 10-Q filed on December 1, 1999).
  - 3.2 Certificate of Amendment of Articles of Incorporation (incorporated by reference to Exhibit 3.2 of the Form 10-Q filed on December 1, 1999).
  - 3.3 Certificate of Amendment of Articles of Incorporation (incorporated by reference to Exhibit 3.3 of the Form 10-Q filed on May 22, 2000).
  - 3.4 Certificate of Amendment of Articles of Incorporation (incorporated by reference to Exhibit 3.4 of the Form 10-Q filed on May 22, 2000).
  - 3.5 Bylaws (incorporated by reference to Exhibit 3.3 of the Form 10-Q filed on December 1, 1999).
  - 4.1 Retainer Stock Plan for Non-Employee Directors and Consultants, dated October 1, 1999 (incorporated by reference to Exhibit 4.1 of the Form S-8 filed on October 8, 1999).
  - 4.2 Consulting Agreement between the Company and Mark Crist, dated October 5, 1999 (incorporated by reference to Exhibit 4.2 of the Form S-8 filed on October 8, 1999).
  - 10.1 Purchase Agreement (LA Internet) between the Company and Iron Horse Holdings, Incorporated, dated June 10, 1999 (incorporated by reference to Exhibit 10.2 of the Form 10-Q filed on December 1, 1999).
  - 10.2 Purchase Agreement between the Company and the Stockholders of MBM Capital Group Inc., dated July 1, 1999 (incorporated by reference to Exhibit 10.3 of the Form 10-Q filed on December 1, 1999).
  - 10.3 Acquisition Agreement (Net 2 Loan) between the Company and Lifestyle Mortgage Partners, dated September 15, 1999 (incorporated by reference to Exhibit 10.4 of the Form 10-Q filed on February 22, 2000).
  - 10.4 Purchase Agreement (license) between the Company and Stockholders of California Land & Home Sale, Inc., dated October 1, 1999 (incorporated by reference to Exhibit 10.5 of the Form 10-Q filed on February 22, 2000).
  - 10.5 Acquisition Agreement (Optical Brigade) between the Company and Wade Whitley, dated November 1, 1999 (incorporated by reference to Exhibit 10.6 of the Form 10-Q filed on February 22, 2000).
  - 10.6 Employment Agreement between the Company and Al Reda, dated January 1, 2000 (incorporated by reference to Exhibit 10.6 of the Form 10-K filed on October 1, 2001).



## Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB/A

- 10.7 Employment Agreement between the Company and Louis Cherry, dated January 1, 2000 (incorporated by reference to Exhibit 10.7 of the Form 10-K filed on October 1, 2001).
- 10.8 Agreement for Acquisition between the Company and Direct Communications, Inc., dated February 25, 2000 (incorporated by reference to Exhibit 10.6 of the Form 10-Q filed on May 22, 2000).
- 10.9 Agreement between the Company and Internet 2xtreme, dated March 6, 2000 (incorporated by reference to Exhibit 10.7 of the Form 10-Q filed on May 22, 2000).
- 10.10 Agreement between the Company, Roanoke Technology Corp., and Global GPP Corp., dated March 21, 2000 (incorporated by reference to Exhibit 10.8 of the Form 10-Q filed on May 22, 2000).
- 10.11 Agreement between GPP Hungary Kft and Haitec Magyarorazagi Kft, dated March 30, 2000 (incorporated by reference to Exhibit 10.9 of the Form 10-Q filed on May 22, 2000).
- 10.12 Stock Purchase Agreement between the Company and Atlas Capital Corporation, dated April 1, 2000 (incorporated by reference to Exhibit 10.10 of the Form 10-K filed on September 27, 2000).
- 10.13 Stock Purchase Agreement between the Company and Ronald Friedman, Robert Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust, dated July 28, 2000 (incorporated by reference to Exhibit 10.11 of the Form 10-Q filed on November 16, 2000).
- 10.14 Stock Sales Agreement between the Company and a buyer, dated July 28, 2000 (incorporated by reference to Exhibit 10.12 of the Form 10-Q filed on November 16, 2000).
- 10.15 Stock Purchase Agreement between the Company, International Business Company, Dennis B. Ginther, Clifford J. Roebuck, Jadwiga L. Ginther, and Bogumila E. Basu , dated August 19, 2000 (incorporated by reference to Exhibit 10.13 of the Form 10-Q filed on November 16, 2000).
- 10.16 Stock Purchase Agreement between the Company, Sonic Auction.com, Inc., and Brian Pruett, dated October 5, 2000 (incorporated by reference to Exhibit 10.14 of the Form 10-Q filed on February 15, 2001).
- 10.17 Stock Purchase Agreement between the Company, Auction-Sales.Com, Inc., and Zahid Rafiq, dated October 19, 2000 (incorporated by reference to Exhibit 10.15 of the Form 10-Q filed on February 15, 2001).
- 21 Subsidiaries of the Company (incorporated by reference to Exhibit 21 of the Form 10-K filed on October 1, 2001).