

Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB

INTERNET BUSINESS INTERNATIONAL INC  
Form 10QSB  
February 18, 2003

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2002

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 registrant as specified in its charter)

Nevada  
(State or jurisdiction of incorporation  
Or organization)

33-0845463  
(I.R.S. Employer  
Identification No.)

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

89119  
(Zip Code)

Registrant's telephone number: (702) 944-2424

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

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

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) been subject to such filing requirements for the past 90 days.  
Yes                      No                      X                      .

As of December 31, 2002, the Registrant had 58,273,603 shares of  
common stock issued and outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION	PAGE
ITEM 1. FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2002 AND JUNE 30, 2002	3
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS ENDED	

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

DECEMBER 31, 2002 AND DECEMBER 31, 2001	4
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001	5
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	22
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	26
ITEM 4. CONTROLS AND PROCEDURES	27
PART II - OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	27
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS	27
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	27
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	27
ITEM 5. OTHER INFORMATION	28
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	28
SIGNATURE	29
CERTIFICATION	30
PART I.	
ITEM 1. FINANCAL STATEMENTS.	

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

	December 31 2002	June 30 2002
ASSETS		
Cash and cash equivalents	\$ 53,113	\$ 60,315
Accounts receivable, net	15,385	166,866
Inventories	36,358	57,468
Prepaid expenses and other	0	90,820
Total current assets	104,856	375,469
Property and equipment, net	1,449,376	1,957,822
Intangible assets, net	811,774	1,462,199
Investment in unconsolidated company	1,517,264	2,000,000
Total Other Assets	3,778,414	5,420,021
Total Assets	3,883,270	5,795,490
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	534,390	496,790

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

Accrued liabilities	342,604	56,624
Current portion of long-term debt	54,302	23,960
Deferred revenues	11,960	54,096
Total current liabilities	943,256	631,470
Long-term debt	576,469	576,469
Total Liabilities	1,519,725	1,207,939

Stockholders' equity:

Preferred stock, par value \$100.00 per share; 1,000,000 shares authorized; 0 and 0 issued and outstanding at Dec. 31 and June 30, 2002, respectively.	0	0
Common stock, par value \$0.01 per share; 349,000,000 shares authorized; In May 2002 after a 1 for 10 reverse and canceling 6,075,000 and issuing two S8 for 20,000,000 leaves a balance of 58,273,603 and 38,273,603 shares issued and outstanding at Dec. 31 and June 30 2002, respectively	582,736	382,736
Additional paid-in capital	6,214,114	6,214,114
Accumulated deficit	(4,433,305)	(2,009,299)
Total stockholders' equity	2,363,545	4,587,551
Total liabilities and stockholders' equity	3,883,270	5,795,490

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended		Six Months Ended	
	December 31 2002	December 31 2001	December 31 2002	December 31 2001
Revenues	\$ 383,905	\$ 2,538,067	\$ 672,242	\$ 4,115,442
Cost and expenses:				
Cost of revenues	22,500	5,082	22,500	22,500
Selling, general and administration	661,157	1,980,051	1,415,442	3,415,442
Depreciation and amortization	729,719	580,743	1,158,212	1,158,212
Total costs and expenses	1,413,376	2,565,876	2,596,154	4,585,954
(Loss) income from operations	(1,029,471)	(27,809)	(1,923,912)	(1,923,912)
Other income (expense):				
Other income or (expense)	0	3,909	0	0
Interest income	0	0	0	0
Other expenses	(482,736)	(6,003)	(482,736)	(482,736)
Total other income, net	(1,512,207)	(2,094)	(2,406,648)	(2,406,648)
Income (loss) before minority interest	0	(29,903)	0	0
Minority interest in loss of subsidiaries	0	0	0	0

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

Net (loss) income	(1,512,207)	(29,903)	(2,406,648)	
Net loss (income) per common	(.0311)	Nil	(.0495)	
Weighted average number of common shares outstanding	48,561,335	282,736,029	48,561,335	282,7

The accompanying notes are an integral part of these financial statements

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

	Six Months Ended	
	December 31 2002	December 31 2001
<b>Cash Flows From Operating Activities:</b>		
Net (loss) income	\$ (1,512,207)	\$ 94,623
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	729,719	602,738
Reserve for loss on notes receivable	0	85,370
Reserve for loss on mortgage loans receivable	0	251,900
Gain on sale of equity investment	0	0
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(15,385)	(293,930)
Inventories	(36,358)	(287,869)
Mortgage loans receivable net	0	(501,042)
Prepaid expenses and other	0	201,250
Accounts payable	342,604	575,366
Accrued liabilities	534,390	101,577
Deferred revenues	11,960	13,013
Other current liabilities	0	0
Net cash (used in) provided by operating activities	54,723	842,996
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	0	(245,405)
Investment in intangible assets	0	0
Proceeds net from sale of equipment	(64,407)	0
Investments notes or stocks	0	0
Net cash used in investing activities	(64,407)	(245,405)
<b>Cash Flows From Financing Activities:</b>		
Net repayments under revolving line of credits	0	(567,028)
Net repayment of long-term debt	0	0
Collection of notes receivable	0	0
Issuance of common stock	10,000	0
Net cash (used in) provided by financing activities	10,000	(567,028)
Net decrease in cash	316	30,563
Cash, beginning of period	52,797	243,833
Cash, end of period	53,113	274,396

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

The accompanying notes are an integral part of these financial statements

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

### 1. Description of Business and Change in Control

Prior to December 31, 1997, Internet Business's International, Inc. (the "Company") 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 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 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, in January 1999 began plans to offer Internet based e-commerce services. In April 1999, the Company announced its first e-commerce site and was engaged in the development, operation and marketing of a number of commercial web sites. The Company consists of two reporting divisions made up of subsidiaries and or divisions of the Company. The Company previously had three division through the end of fiscal year June 2002 as follows: Lending on Line (provided real estate loans and equipment leasing), this division ceased operations in June of 2002, Internet Service Provider (provides a national Internet access dial-up service, wireless high speed Internet access in Las Vegas, Nevada and Woodland, California, in addition to Internet web design and hosting); and Direct Marketing (provides 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 3 offices in the US and 1 in Europe and more than 20 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 consolidate financials included the Global GPP subsidiary of which the Company owned 80%, during the time it operated from March 2000 to March 2001, at which time Global GPP ceased operations. The financial information was included in the E Commerce section, of the Company's financials, until the sale of Ace Optics in the fourth quarter of the fiscal year ended June 30, 2002. That information is now included in the Other Income along with the Company's Other 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

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

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 for doubtful accounts and 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 loan 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. The financial statements were revised for June 30, 2001, along with the companion figures for June 30, 2000 to incorporate the changes of revenue recognition for the Mortgage Division.

### Reclassifications

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

Note this subsidiary was closed during the fiscal year ended June 30, 2002.

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.

Balance Sheet will provide information as follows (if applicable):

#### Assets

Loans held for sale	XXX
Allowance for loan losses	XXX

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,

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

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, IBII 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, 2002. 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 issue exists, an assessment is performed using a variety of methodologies, including cash flow analysis, estimates of sales proceeds and independent appraisals.

### Additional Paid In Capital

No additional paid in capital occurred during the second quarter fiscal year ending June 30, 2003.

No additional paid in capital occurred during the first quarter fiscal year ending June 30, 2003.

In May of 2002 a 1 share for 10 shares reverse became effective. This was the first part of a Securities Purchase Agreement in conjunction with a stock registration. The Company received \$120,000 as a loan to be paid with the registration of stock during the fiscal year. Due to the price drop in the stock after the reverse occurred the registration did not occur. The Loan proceeds are booked as long-term debt. The stock reverse difference of shares issued and outstanding is stated as additional paid in capital in the amount of \$2,544,624.

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

### Revenue Recognition

IBII recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility 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 is provided as

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

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 for 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 a loan for a consumer originated through our Website, [www.gcapgp.com](http://www.gcapgp.com). Closed-loan fees are recognized at the time the lender reports the closed loan to us. The Lending of Line subsidiary was closed down in June 2002. Additional revenue is derived from on line leasing, and is recognized as the services are performed.

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

Source: SAB 101

### 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.

### 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 established 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.



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

### 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 June 2002, the Company announced the sale of Ace Optics to CRT Corporation for \$2,000,000 worth of CRT restricted stock

In June 2002, the Company announced that it plans to divest itself of the Guarantee Capital Group subsidiary and, in anticipation of that occurrence, ceased operations of the on line mortgage lending group.

In February 2002, the Company announced plans to spin-off the Global Construction Buying Group to its shareholders by the end of 2002.

In September 2001, the Company started Guarantee Capital Group, which acquired the computer, furniture and processing equipment from the new owner of Atlas Capital Corporation for \$30,000. In November 2001 Guarantee Capital Group had exceeded the capacity of its mortgage banking line. This prevented Guarantee from funding the balance of its processed loans and subsequently in December 2001, 20 its 24 employees were laid off. The Company ceased the operation of Guarantee before the end of June 2002.

In September 2001, the Company started a new marketing subsidiary 1st2 Market Incorporation 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, IBII ceased to operate Global GPP Corporation and closed its corresponding operation in Europe. The Company started 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, IBII signed an acquisition agreement with Auction-Sales.Com. The Company invested \$180,000 in the 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 the Company prevails the debt could be collected.

In October 2000, IBII acquired the auction web site operations of the Sonic Auction Company for a purchase price of approximately \$5,000. With this acquisition, the Company acquired a database and a functioning 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 of shares of restricted common stock for service valued at \$41,139.

In April 2000, IBII acquired all the outstanding stock of Atlas Capital Corporation, a mortgage-banking company, for 600,000 restricted common stock valued at \$6,000. In connection with the acquisition, the Company acquired assets of approximately \$3,183,000

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

and assumed liabilities of approximately \$3,179,000. The difference of \$260,000 was recorded as intangible assets related to acquisition of trade names, websites, workforce-in-place and is being amortized over 5 years. By the end of 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 \$186,88. 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 for \$500,000. Global GPP owned a business-to-business website, equipment and had 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 company stock valued at \$300. Intangible assets purchased totaled \$265,000, consisting of customers' 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 of restricted shares of 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 for a reduction of the Note Receivable from Iron Horse Holdings, Inc. (see Preferred Stock Note 8).

#### 4. Certain Financial Statement Information

	December 31 2002	June 30 2002
Accounts receivable:		
Accounts receivable	\$ 23,077	\$ 292,747
Less: allowance for doubtful accounts	(7,692)	(125,881)

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

Accounts receivable, net	15,385	166,866
Property and equipment:		
Office furniture and equipment	47,643	47,999
Machinery and computer equipment	3,111,393	3,136,393
Leasehold improvements	0	0
Less: accumulated depreciation	(1,709,660)	(1,226,570)
Property and equipment, net	1,449,376	1,957,822
Intangible assets:		
Capitalized software costs, including websites	1,270,156	1,270,156
Subscriber member bases	1,148,307	1,148,307
Others, including customer lists, existing technology, trade names	423,386	423,386
Less: accumulated amortization	(2,039,682)	(1,379,650)
Intangible assets, net	811,774	1,462,199

### 5. Revolving Lines of Credit

In January 2002, the Company had a credit facility with PCFS for \$3,000,000 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 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. By May of 2002, this line was not used and the agreement terminated.

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 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. This agreement was terminated in December of 2001. Amounts outstanding under the IMPAC line at June 30, 2002 and 2001 were \$0 and \$6,183,228 respectively.

In March 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

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

not have a stated expiration date but is terminable by either party upon written notice. This Line was terminated in July of 2001. Amounts outstanding under the IMPAC line at June 30, 2002 and 2001 were \$ 0 and \$ 865,468 respectively.

The effective interest rate for the credit lines listed above were as follows per quarter, 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%	N/A	0
Dec. 31, 2001	4.75%	5.75%	N/A	0
March 31, 2002	4.75%	N/A	N/A	0
June 30, 2002	4.75%	N/A	N/A	0
Sept. 30, 2002***	N/A	N/A	N/A	N/A

\* Imperial line not in use after June 2001

\*\* Impac line not in use after December 2001

\*\*\* At the end of the quarter ended Dec. 31, 2001 the company ceased operations of the mortgage lending business. Therefore this data is not applicable.

In addition, the Company had 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, 2002 and 2001 were \$ 0 and \$ 0, respectively. The Company paid off the line of credit line during the fiscal year ending June 30, 2001, because it was no longer required.

All credit facilities and bank line of credit required the Company to maintain certain financial ratios and adhere to specific non-financial requirements.

As of June 30, 2002, when the company closed the mortgage it was in compliance with the various covenants contained in the above agreements.

### 6. Long-Term Debt

Long-term debt at December 31, 2002 consists of the following:

	Current Portion	Long-term	Total
Notes payable secured by certain Company assets, requiring monthly payments of \$9,096 of interest with various interest rates and due dates. These accounts are 6 months past due.	\$ 54,302	\$ 576,469	\$576,469

During the fiscal year ended June 30, 2002, certain real estate loans defaulted. The Company's subsidiary was making payments to the lender that purchased the defaulted loans. These payments were made at the

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

note rate for each loan. 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 upon any contract, obligation or liability founded upon a written statement or written contract." The debts of company's (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 collectable based upon this Code Section 337. The Company then extinguished these debts and recognized amount of the debt as extraordinary income. SFAS 125 list 2 sets of circumstance under which a liability is not recognized (which is listed below). The second set of 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

During the second quarter fiscal year ended June 30, 2003, IBII issued stock for services.

10,000,000 shares of common stock were issued as payment to consultants in lieu of cash for services provided pursuant to consulting agreements. The fair value of the shares was recorded as prepaid professional services and amortized ratably over the term of the contract. These shares were issued pursuant to a Form S-8 registration statement

During the first quarter fiscal year ended June 30, 2003, IBII issued stock for services.

10,000,000 shares of common stock were issued as payment to consultants in lieu of cash for services provided pursuant to consulting agreements. The fair value of the shares was recorded as prepaid professional services and amortized ratably over the term of the contract. These shares were issued pursuant to a Form S-8 registration statement.

During the fiscal year ended June 30, 2002 the following occurred:

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

Stock Reverse, In May 2002, a 1 share for 10 shares reverse became effective. This was the first part of a Securities Purchase Agreement in conjunction with a stock registration. The Company received \$120,000 as a loan to be paid with the registration of stock during the fiscal year. Due to the price drop in the stock after the reverse, the registration did not occur. The Loan proceeds booked as long-term debt. The stock reverse difference of shares issued and outstanding is stated as additional paid in capital in the amount of \$2,544,624.

During fiscal year ended June 30, 2002, IBII issued stock for services.

Post-Stock reverse 10,000,000 shares of common stock were issued as payment to consultants in lieu of cash for services provided pursuant to a consulting agreements. The fair value of the shares was recorded as prepaid professional services and amortized ratably over the term of the contract. These shares were issued pursuant to a Form S-8 registration statement.

In September 2001 15,500,000 shares were issued as per employment contract, bring the total number to 282,736,029 common snares issued and outstanding of which 134,495,037 are restricted.

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

During fiscal year ended June 30, 2000, IBII 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 and amortized ratably over the term on the contract.

During fiscal year ended June 30, 1999, IBII issued in December 1998, approximately 9.1million 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. Under this agreement, IBII issued an additional 2.1 million shares of restricted common stock in January 1999.

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 Combination.

### Preferred Stock

After the end of the second quarter fiscal year ended June 30, 2003 the Company issued the following preferred shares;

10,000 Shares of Series A Preferred Stock of IBII were issued as collateral for the funding a loan to the Company, (see Part 2 Item 5 Other Information, for more details).

Prior Preferred Stock issuances;

On December 15, 1998, the Company entered into an agreement with Iron

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

Horse Holdings, Inc. ("IHHI"), a privately held company in which officers or family members of the officers of the Company have minority stock ownership, IHHI to purchase 23,900 shares of the Company's preferred stock with a par value of \$100.00 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 bear 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 ending June 30, 2001, the company-received payment in full on the note executed by IHHI. Also during this fiscal year IHHI converted the preferred into common stock. There are no preferred shares issued and/ or outstanding as of this date.

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

During fiscal year 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
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 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 payment
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 quarter and year ended respectively December 31, and June 30 consist of the following (there was no provision for income taxes on the financials due to the net loss carried forward from the previous years operations):

Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10QSB

	December 31 2002	June 30 2002
Current income tax expense:		
Federal	\$ 0	\$ 0
State	0	0
	0	0
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	0	0
Valuation allowance	0	0
	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 begin to expire beginning in 2004.

For 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).

10. Commitments

The Company leases all of its offices, and moved several of its offices during the first quarter of the current fiscal year ended June 30 2003. This has reduced the Company's monthly obligations for several locations during the fiscal year and sold one of its subsidiaries and closed another. The future minimum rental commitments at December 31, 2002 under these leases are as follows:

Corporate Headquarters

4634 S. Maryland Pkwy, Suite 107, Las Vegas, Nev. 89119  
\$2451 per month ending 6-03 total \$ 14,706

West Coast Headquarters

550 Carson Plaza Drive Suite 127, Carson Ca. 90746  
\$2250 per month ending 12-03 total \$27,000

2X Inc.

725 Main St. Suite 12, Woodland, Ca. 95695  
\$1270 per month ending 11-03 total \$13,970

550 Carson Plaza Drive Suite 127, Carson. Ca. 90746

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

Several of these locations house more than one subsidiary.



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

The commitment for the Company based upon the aforementioned leases for the remaining quarters of this fiscal year is \$ 55,676.

After September 1, 2002 the Company consolidated its southern California operation to the offices located in Carson, California.

The Company also houses equipment at several co-location facilities.

### 11. Segment Information

In accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," management has determined that there are three reportable segments based on the customers served by each segment: Full service Internet service provider (ISP); mortgage banking business, which ceased operation in June 2002; and business-to-consumer ("B2C") marketing. 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 provides customers with Internet access in the western United States through dial-up, and high-speed wireless; web hosting and web design. The mortgage banking business provides online mortgage loan origination, processing, servicing and resales. The mortgage banking business ceased operations in June 2002. Business-to-consumer primarily consists of marketing services provided by the company and generates fees from these services 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:

Second Quarter Ended	December 31 2002	December 31 2001
Full-service ISP		
Net sales	\$ 550,554	\$2,166,014
Operating income	(844,653)	594,286
Mortgage loan originations held for resale		
Net sales	0	1,800,359
Operating income	0	290,619
E Commerce (B-to-b/c)		
Net Sales	0	99,846
Operating income	0	(46,982)
Marketing (B-to-b/c)		
Net sales	1,688	9,973
Operating income	(36,105)	(345,836)
Other		
Net income	120,000	446,534
Unallocated expense	(1,525,890)	(397,464)
Total		
Net sales	672,242	4,522,726
Operating income	(2,406,648)	94,623

### 12. Other Events

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

### a. Dividend

On June 17 2002, the Company announced the sale of Aces Optics to CRT Corp. for 2,000,000 shares of CRT restricted stock valued at \$1.00 a share. The dividend was to be based on one share of CRT Corp. per 100 shares of post reverse shares of the Company. On July 8 the Company announced the record date of July 17, 2002 for the shareholders to receive the dividend. On July 18, 2002 the Company announced the date of distributions to be August 30, 2002. By September 15, the Transfer Agent was working with the DTC to complete the issuance of the divided CRT Corporation restricted shares to its shareholders. After the end of the Quarter the dividend shares were issued and will be reflected in the next quarter's financials.

### b. RTRN

In June 2001, the Company announced that an agreement of merger and share exchange was executed by and among Return Assured Incorporated, a Delaware corporation ("RAI"), IBUI Acquisition Corp., a Nevada corporation (the "Merger Subsidiary") and together with RAI, the "RAI Parties"), and Internet Business's International, Inc., a Nevada corporation ("IBUI"). The merger was to be completed before January 2002. All parties to the agreement mutually canceled failing the completions of merger the agreement within the time frame agreed to the agreement.

### c. PMCC

On August 2, 2000, the Company announced that it had entered into an agreement whereby the Company would purchase 2,460,000 share of PMCC Financial Corp. ("PMCC"), a full-service mortgage banking company; common stock from PMCC's former chairman of the board, Ronald Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust Ronald Friedman, 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 are not actively trading on the AMEX or NASDAQ exchanges and the Company has not merged PMCC with the Company or any of the Company's subsidiaries, the purchase price shall 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 owns or will eventually own, for total consideration of \$1,387,500. Shares of PMCC stock sold by the Company will be released to the buyer in proportion to payments received.

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

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

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 this action.

As of December 31, 2000, the Company received payments of \$559,812 and the Company released 149,283 shares of PMCC stock that it owned. If PMCC is not actively trading within six months of the agreement, the Company will issue to the Buyer the equivalent number of shares of stock of the Company. PMCC has been actively trading as of January 19, 2001, and the gain on the sale of the PMCC stock of \$410,529 has been included in revenues for the period ending December 31, 2000.

In January 2001, the PMCC was delisted from the American Stock Exchange and began trading on the Pink Sheets under the symbol of "PMCF"; this met the trading requirement as per the stock sale agreement the Company had entered into with an unrelated individual during the first quarter of this fiscal year.

### d. IBC

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 the periods from September 1, 2000 through 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.

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

On October 19, 2000, the Company entered into a Stock Purchase Agreement with Auction-Sales.Com, Inc. and its majority shareholder, Zahid Rafiq (collectively, "Seller"), for the purchase by the Registrant of 96.62% of the outstanding and treasury shares of common stock of Auction-Sales.Com, Inc., a Delaware corporation. In exchange for the shares, the Company was to pay, under the terms of the agreement, 11,000,000 shares of Company's common stock to Seller for all of Seller's Shares. After investing \$180,000 for marketing, the Company discovered that Auction-Sales had undisclosed liabilities and that Auction-Sales was not in compliance with California law regarding delivery of product paid for but not delivered to customers.

This acquisition was rescinded in December 2000 and the necessary documents were filed with the SEC. The site was retained until the funds invested into Auction-Sales.Com are returned which at this time management has 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

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

for use by the Association, and does not involve any payment by the Company. By the end of the fiscal year ended June 2002, this program generated no revenue and the Company has ceased to offer this service.

### 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 their potential for profit. This agreement covers the modification of the Construction Buying Group website for by the Construction industry, and does not involve any payment by the Company. By the end of June 2002, the Company canceled this agreement due to lack of activity of JWC.

### 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

The Company currently operates two reporting division. The following list the locations for the divisions and for Corporate Headquarters.

#### Corporate Headquarters

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

#### West Coast Headquarters

550 Carson Plaza Drive Suite 127, Carson, Ca. 90746

(1) ISP (consists of a 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) Marketing (provides includes the direct marketing of wireless high speed Internet access and bandwidth.)

#### First 2 Market

4634 S Maryland Pkwy, Suite 107, LV, NV 89119

The Company employs over 10 people and has 3 offices.

Results of Operations - Comparison of Quarter Ended December 31, 2002 to Quarter Ended December 31, 2001.

#### (a) Overall

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

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 loan 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 December 31, 2001 and December 31, 2002, which incorporates the changes of revenue recognition for the Mortgage Division.

Revenues for the three and six months ended December 31, 2002 of \$383,905, for the three months and \$672,242 for the six months which represents a decrease of approximately 661% for the three months and 673% for the six months when compared to the same three and six months period of the prior year ended December 31, 2001 of \$2,538,067 and \$4,522,726. There are several reasons for these sharp decreases are as follows:

1. Loss of customer base for the ISP because of the current economic and the changes the Company made in the customer service area, which affected revenue.
2. The mortgage banking division.
3. Sale of E-Commerce division.

Selling, general and administrative expenses for the same three and six month period December 31, 2002 and 2001 respectively were \$661,157 and \$1,980,051 respectively, for the three months and \$1,415,442 and \$3,598,865 for the six months. These decreases in the SG&A represent a decrease of approximately 667% and 254% for the three and six month periods. The main reason for this decrease is from the sale of the E-Commerce division, the closing of the mortgage banking division, and the staff reduction at the Corporate, ISP, and marketing divisions.

The resulting loss for the three and six month periods ended December 31, 2002 of (\$1,512,207) and (\$2,406,648) is a significant loss when compared to the loss of (\$29,903) and profit of \$94,623 reported for the comparable periods ended December 31, 2001. The loss is primarily due to the decrease in revenue from the ISP and the lack of revenue from the mortgage banking division. The distribution of the dividend of \$482,736 increased the loss that was reported in the quarter.

### (b) Comparison by Segment

Management determined that there were four reportable segments for the prior quarter ended September 30, 2001. However for this quarter ended December 31, 2002 there are only two reportable segments for the Company. These are as follows: Full service Internet service provider (ISP); 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:

Second Quarter Ended	December 31	December 31
	2002	2001

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

Full-service ISP		
Net sales	\$ 550,554	\$ 2,166,014
Operating income	(844,653)	594,286
Mortgage loan originations held for resale		
Net sales	0	1,800,359
Operating income	0	290,619
E Commerce (B-to-b/c)		
Net Sales	0	99,846
Operating income	0	(46,982)
Marketing (B-to-b/c)		
Net sales	1,688	9,973
Operating income	(36,105)	(345,836)
Other		
Net income	120,000	446,534
Unallocated expense	(1,525,890)	(397,464)
Total		
Net sales	672,242	4,522,726
Operating income	(2,406,648)	94,623

ISP: The results for the ISP segment (see locations and services listed in Current Operations) for the second quarter ended December 31, 2002 of \$550,554 is a sharp decrease of approximately 394% when compared to the same period ended December 31, 2001 of \$2,166,014. The decrease is due to a loss of customer base and other related factor that have been occurring during the previous fiscal year and continued through the end of the quarter. The Company is now concentrating on the high-speed Internet accesses and increase in hosting activities. The loss of (\$844,653) for the quarter ended December 31, 2002 is a significant decrease for the same period of the previous fiscal year, which reported profits of \$594,286. The reason for the loss was stated above.

Mortgage Loans: Since this division is currently not doing business there will be comparative analysis of the previous results.

E Commerce: Since the sale of this division occurred prior to the end of the previous fiscal year ended June 30, 2002, there will be no comparative analysis of the previous results.

Marketing: The results for the Marketing segment (see location and services listed in Current Operations) for the second quarter ended December 31, 2002 of \$1,688 is a decrease of 590% compared to the same period ended December 31, 2001 of \$9,973. The main reason for the decrease was the decision to sell services on a contract basis and eliminate all direct personnel for this division. The only related direct expense for this operation are for the leased facility that the division has allocated to it and the phone service provided for it. The losses of (\$36,105) represent a significant decrease when compared to the loss for the same period of the previous fiscal year of (\$345,836). The Company currently does not employ other means of informing the consumer about the services that the Company offers other than the Internet. The Company feels that direct marketing is the most effective means to market services to the non Internet consumer and is still trying to develop an effective direct marketing program.

Other: Revenues were from service charges that were generated from marketing services provided by the Company to clients. Due to economic conditions these services were no longer requested and therefore no revenue was generated from those activities. The Company did sell a completely depreciated asset. Therefore the \$120,000 represent amount received from the sale of the depreciated asset. The

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

marketing revenue of \$446,534 for the previous ended December 31, 2001 will not be compared to the revenue of \$120,000 for the quarter ended December 31, 2002. The marketing revenue that was previously generated by this division was used to offset the expenses of the corporate operations. The losses of (\$1,525,890) for the quarter ended December 31, 2002 are a significant increase for the losses of (\$397,464) for the same quarter of the previous fiscal year. The main reasons for the increased expenses are from operational changes to decrease costs however there are cancellation charges associated with these changes that are represented by the increase in expenses, along with the cost of the stock dividend distribution.

### Liquidity and Capital Resources.

Net cash provided by the operations of the Company for the quarters ended December 31, 2002 and 2001 respectively of \$53,113 and \$274,396 is a decrease of 516%. The reasons for the net cash decrease are stated above in the "Results of Operations" sections (a) and (b).

In January of 2002 the Company had entered into an agreement to issue a Convertible Debenture in order to raise capital for the expansion of its wireless Internet services and re-establish the mortgage loan division; this Debenture was never completed due to the market price of the Company's stock.

The Company is also considering additional sources for raising capital for its needs. The increased demand for the wireless Internet services in Las Vegas, Nevada and Woodland, California, is one of the bases for the additional need for capital. The mortgage loans division, which was not operational during this quarter, will also require additional capital to rebuild. The Company currently does not have available capital unless it is obtained by raising capital through either debt or equity such as a Convertible Debenture as indicated above. The Company anticipates that based upon the additional capital being available, the mortgage loan division could be fully operational within 3 months.

After the end of the quarter the Company entered into a loan agreement with Mercatus Partners Limited. See Part II Item 5 Other Information for further details.

### Capital Expenditures.

Other than as set forth below, no material capital expenditures were made during the quarter ended on December 31, 2002.

### Acquisitions

There were no acquisitions made during the quarter ended December 31, 2002.

### 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 Registrant's business strategies, continued growth in the Registrant's markets, projections, and anticipated trends in the Registrant'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 Registrant's expectations

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

and are subject to a number of risks and uncertainties, certain of which are beyond the Registrant's control. The Registrant 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 Registrant's products, competitive pricing pressures, changes in the market price of ingredients used in the Registrant's products and the level of expenses incurred in the Registrant'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 Registrant disclaims any intent or obligation to update "forward looking statements."

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

This section has not been updated relative to market risk because the Mortgage Banking Division ceased operation during the previous fiscal year ended June 30, 2002. This division may become operational if additional funds are available for the Company.

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 at which the Company funded the mortgage loans could have benefited the company because the cost of funds was less the mortgage interest rate. The Company could have lost 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 our cost of funds as compared to the residual interests as of December 31, 2001 and March 31, 2002:

	Change In Fair Value As of:	
	December 31 2001	March 31 2002
Prime Rate	4.750%	4.750%
Our Cost of Funds	1.500%	1.500%
Total	6.250%	6.250%
Bond Market	4.900%	5.100%
Consumer Cost of Funds	1.500%	1.500%
Total	6.400%	6.600%
Net Impact Benefit (Loss)	0.150%	(0.350%)
Consumer Cost of Funds	1.500%	1.500%
Total	6.400%	6.075%



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

Net Impact Benefit (Loss) 0.150% (1.425%)

### ITEM 4. CONTROLS AND PROCEDURES

The Chief Executive Officer is the "Certifying Officer" and is responsible for the establishing and maintaining disclosure control and procedures for the Company.

The Certifying Officer has designed such disclosures controls and procedures to ensure that material information is made known to the officer, particularly during the period in which this report was prepared.

The Certifying Officer has evaluated the effectiveness of the Company's disclosure controls and procedures within 90 days of the date of this report and believes that the Company's disclosures controls and procedures are effective based on the required evaluation. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

## 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 issued 10,000,000 shares of S-8 stock for services during this quarter.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

### ITEM 5. OTHER INFORMATION.

In January of 2003 the Company entered into a Collateral Loan Agreement (the "Loan Agreement") with Mercatus Partners Limited, a UK

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

corporation (Mercatus), pursuant to which Mercatus has agreed to provide the Company with loans in an amount of up to 20% of the Final Market Value (as such term is defined in the Loan Agreement) of certain restricted shares of our preferred stock were issued by the Company in the name of Mercatus to secure the obligations under the loans (the "Stock"). The loans are payable to the Company within 10 days of delivery of the Stock and related loan documents.

Loans under the Loan Agreement are evidenced by the promissory Notes payable to Mercatus and are secured by the 10,000 Shares of Series A Preferred Stock. The interest rate on the loans will be set at 5.5%.

Except as otherwise provided in the Loan Agreement, the Stock shall be held as collateral by Mercatus at all times there remains principal or interest owing to Mercatus under the promissory notes. Other than as specifically set forth in the Loan Agreement, the Stock may not be sold, hypothecated, assigned, transferred, or otherwise encumbered. In the event of a default under the Loan Agreement, however, Mercatus may thereafter sell, assign, hypothecate or otherwise dispose of the Stock. Under such circumstances, Mercatus assumes no responsibility for the amount of proceeds it may receive upon such disposition of the Stock. Any proceeds received by Mercatus in excess of the default amount plus reasonable attorney's fees, if any, and related costs of disposition will be returned to the Company. In the event of a default by the Company, the Company has further agreed to take all reasonable steps to register the Stock for resale by Mercatus. A default by the Company under the Loan Agreement can be expected to have a materially adverse effect on the price of the Company's common stock.

The initial term of the loan is 5 years, with interest-only payments for the first year of the loan. Upon payment in full of all interest and principal due under the loan, the Stock will be returned to us for cancellation. During the term of the loan Mercatus will provide a voting proxy with respect to the Stock to a person designated by the Company. In the event of a default however, the proxy shall be deemed null and void.

In connection with the Loan Agreement, in February 2003 the Company delivered 10,000 shares of restricted preferred stock to Mercatus. The Company expects delivery of the funds by February 28th, 2003.

The maximum loan amount would be \$9,000,000 with approximate net proceeds of \$7,900,000.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

Reports on Form 8-K.

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

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 Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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

Internet Business's International, Inc.

Dated: February 12, 2002

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

## CERTIFICATIONS

I, Albert Reda, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Internet Business's International, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in

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

this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 12, 2003

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

### EXHIBIT INDEX

Number	Description
2.1	Agreement and Plan of Merger between the Registrant and Internet Business's International, Inc., a Delaware corporation, dated July 1, 1999 (incorporated by reference to Exhibit 2 of the Form 8-K/A filed on November 22, 1999).
2.2	Agreement and Plan of Merger and Share Exchange between the Registrant, 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 Registrant 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 Registrant 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 Registrant 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 Registrant and Lifestyle Mortgage Partners dated September 15, 1999

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

(incorporated by reference to Exhibit 10.4 of the Form 10-Q filed on February 22, 2000).

- 10.4 Purchase Agreement (license) between the Registrant 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 Registrant 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 Registrant and Al Reda dated January 1, 2000 (incorporated by reference to Exhibit 10.6 of the Form 10-K filed on October 1, 2001).
- 10.7 Employment Agreement between the Registrant 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 Registrant 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 Registrant 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 Registrant, 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 Registrant 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 Registrant 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 Registrant 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 Registrant, 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 Registrant, Sonic Auction.com, Inc., and Brian Pruett, dated October 5, 2000 (incorporated by reference to Exhibit 10.14 of the Form 10-Q

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

filed on February 15, 2001).

- 10.17 Stock Purchase Agreement between the Registrant, 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 Registrant (incorporated by reference to Exhibit 21 of the Form 10-K filed on October 1, 2001).
- 22 Stock Reverse Filed May of 2002
- 23 S-8 Stock registration Filed November of 2001
- 24 S-8 Stock registration Filed February of 2001
- 25 S-8 Stock registration Filed May of 2002