

Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10-Q

INTERNET BUSINESS INTERNATIONAL INC  
Form 10-Q  
February 19, 2002

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

FORM 10-Q

(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, 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: 33-43621

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 89119  
(Address of principal executive offices) (Zip Code)

Registrant'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 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

As of December 31, 2001, the Registrant 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 DECEMBER 31, 2001 AND JUNE 30, 2001	3
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THREE MONTHS AND SIX MONTHS ENDED DECEMBER 30, 2001 AND DECEMBER 30, 2000	4

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED DECEMBER 31, 2001 AND DECEMBER 31, 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	27
PART II - OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	28
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS	28
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	28
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	28
ITEM 5. OTHER INFORMATION	28
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	28
SIGNATURE	29
PART I.	
ITEM 1. FINANCIAL STATEMENTS.	

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

	December 31 2001	June 30 2001
Assets		
Cash and cash equivalents	\$ 274,396	\$ 258,019
Accounts receivable, net	293,930	200,968
Inventories	287,869	166,307
Mortgage notes held for sale	6,388,740	6,929,724
Prepaid expenses and other	201,250	106,092
Total current assets	7,446,185	7,661,110
Property and equipment, net	2,175,425	1,869,761
Intangible assets, net	2,256,211	2,543,697
	\$ 11,877,821	\$12,074,588
Liabilities and Stockholders' Equity		
Accounts payable	\$ 575,366	\$ 559,292
Accrued liabilities	101,557	40,963
Revolving line of credit	5,887,698	6,230,678
Current portion of long-term debt	8,425	14,048
Deferred revenues	13,013	56,966

Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10-Q

Other current liabilities	0	0
Total current liabilities	6,586,059	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	(1,528,608)	(2,337,662)
Total stockholders' equity	4,968,242	4,001,188
Total liabilities and stockholders' equity	\$11,877,821	\$12,074,588

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 2001	December 31 2000	December 31 2001	December 31 2000
Revenues	\$ 2,538,067	\$ 6,539,850	\$ 4,522,726	\$ 11,111,111
Cost and expenses:				
Cost of revenues	5,082	5,108,321	11,212	11,111,111
Interest expense	0	0	0	0
Selling, general and administration	1,980,051	1,583,242	3,598,865	3,598,865
Depreciation and amortization	580,743	47,163	824,440	824,440
Total costs and expenses	2,565,876	6,738,726	4,434,517	11,111,111
(Loss) income from operations	(27,809)	(198,876)	88,209	(111,111)
Other income (expense):				
Other income or (expense)	3,909	102,117	13,065	13,065
Interest income	0	218,018	0	0
Other expenses	(6,003)	(1,806)	(6,651)	(6,651)
Total other income, net	(2,094)	318,329	6,414	6,414
Income (loss) before minority interest	(29,903)	119,453	0	(111,111)
Minority interest in loss of subsidiaries	0	10,170	0	0
Net (loss) income	(29,903)	129,623	94,623	(111,111)
Net loss (income) per common	Nil	Nil	Nil	Nil
Weighted average number of common shares outstanding	282,736,029	225,539,580	282,736,029	225,539,580

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

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 2001	December 31 2000
Cash Flows From Operating Activities:		
Net (loss) income	\$ 94,623	\$ (732,264)
Adjustments to reconcile net (loss) income to Net cash (used in) provided by operating activities:		
Depreciation and amortization	602,738	289,322
Reserve for loss on notes receivable	85,370	
Reserve for loss on mortgage loans receivable	251,900	
Gain on sale of equity investment	0	(410,529)
Minority interest	0	(29,828)
Changes in operating assets and liabilities:		
Accounts receivable	(293,930)	83,316
Inventories	(287,869)	0
Mortgage loans receivable net	(501,042)	569,110
Prepaid expenses and other	201,250	16,794
Accounts payable	575,366	57,254
Accrued liabilities	101,577	47,005
Deferred revenues	13,013	(16,984)
Other current liabilities	0	0
Net cash (used in) provided by operating activities	842,996	(126,804)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(245,405)	(292,896)
Investment in intangible assets	0	0
Proceeds from sale of investment in company	0	559,812
Investments notes or stocks	0	(1,025,357)
Net cash used in investing activities	(245,405)	(758,441)
Cash Flows From Financing Activities:		
Net repayments under revolving line of credits	(567,028)	(627,784)
Net repayment of long-term debt	0	177,740
Collection of notes receivable	0	32,182
Issuance of common stock	0	0
Net cash (used in) provided by financing activities	(567,028)	(417,862)
Net decrease in cash	30,563	(1,303,107)
Cash, beginning of period	243,833	1,661,963
Cash, end of period	274,396	358,856

The accompanying notes are an integral part of these financial statements

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

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

### 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 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 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 announced its first e-commerce site and was engaged in the development, operation and marketing of a number of commercial Internet web sites. The Company currently operates four reporting divisions made up of subsidiaries and or divisions of the Company. 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 and hosting). The Company has more than 40 employees and 6 offices in the US and 1 in Europe and.

### 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.

#### 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 for doubtful accounts, notes receivable and for mortgage loans receivable. Actual results could differ from those estimates.

#### Reclassifications

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

#### Cash and Cash Equivalents

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

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

### 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 was booked as revenue upon receipt of those funds by the Company. This has a significant impact of the revenue for the Company, but does not impact the net income (loss) for the Company.

### Mortgage Loans Held for Sale

Mortgage loans held for sale, are carried at the lower value of either cost or market value as determined by outstanding commitments from investors. The market value of the loans is based on the note rate and the daily loans yield spread pricing from the bank that is buying the loans. When a loan rate is locked, then a corresponding price or yield is calculated.

Example: note rate of \$100,000 with a 7% locked rate from the bank paying a yield premium of 101.00%. The value of the note would then be \$101,000. A note rate at 6.875% purchased by the same bank could be valued at par and therefore the market value is \$100,000.

Mortgage loans held for sale are secured by the borrower's mortgaged property. Net proceeds resulting from the sale of mortgages are recognized as revenues on the date the loans are sold to investors.

### Property and Equipment

Property and equipment is stated at cost and depreciated or amortized on a straight-line basis over the estimated useful lives of the assets or the lease term, whichever is shorter. Estimated useful lives range from 3 to 7 years.

### Capitalized Computer Software

Capitalized computer software included in intangible and other assets, reflects costs related to purchased Internet websites and related software that are capitalized and amortized on a straight-line basis over periods not exceeding five years. Costs incurred to acquire or upgrade websites and other internal software is capitalized in accordance with Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Amortization expense for second quarter ending December 31, 2001 and fiscal June 30, 2001 was \$466,901 and \$324,910 respectively.

### Intangible Assets

The Company has accounted for acquisitions of businesses under the purchase method, and the excess of the purchase price over the fair value of the net assets acquired is allocated to subscriber member bases and customer lists, existing technology, work force in place, trade names and residual goodwill, which are being amortized on the straight-line basis over 5 years.

### Long-Lived Assets

The Company periodically reviews the values assigned to long-lived

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

assets and intangible assets, such as property and equipment, capitalized computer software, goodwill and other intangibles assets, to determine whether any impairments are other than temporary. Management reviews the undiscounted projected cash flows related to such assets and compares them to the carrying value of the assets to determine if impairment has occurred. If an asset is deemed to be impaired, the Company records the difference between the projected cash flows on a discounted basis or the fair market value (whichever is more appropriate) and the carrying value as an asset impairment charge in the period incurred. There were no such impairments in the periods presented. Management believes that the long-lived assets and intangible assets in the accompanying balance sheets are appropriately valued.

### Additional Paid In Capital

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

There was no additional paid in capital through the second quarter of this fiscal year ending June 30, 2002.

### Revenue Recognition

Revenue is recognized for each of the divisions as follows:

ISP: for services provided fees paid are recognized as revenue. For design work fees are paid after the work is completed at which time it is reported as revenue. If the work is complete and has not been paid, it is a receivable. For services revenue is recognized when paid for the time frame the services are contracted for. If the company hosts or provide internet access on a monthly bases then the revenue is booked as received which is paid in advance of the service actually being rendered. During this quarter ended December 31 2001, the company recorded deferred revenues totaling \$13,013.

E-commerce: for Auctions normal or reverse fees are paid upon the completion of the auction and the product is either bought or sold, revenue is reported only upon receipt of funds. For services revenue is recognized when paid for the time frame the services are contracted for. If we list the company in the directory on a monthly basis, then we book the revenue as received, which is paid in advance of the service actually being rendered. For products purchased, we report the revenue upon receipt of it for products shipped. If the product is not shipped for any reason, then the funds are returned to the buyer and there is no reporting of the funds as revenue.

Lending on line; for the real estate loans revenue is booked according to the net proceeds received from the sale of the funded loans after they are sold. Revenue from fees for loans not funded by the company (brokered loans) are booked upon receipt thereof. For the on line leasing, revenue is booked upon receipt of payment for advertising the web site on the net.

Direct Marketing; for products and or services sold revenue due is either reported as accounts receivable or as revenue upon receipt of the funds during this fiscal year

### Advertising Expense

All advertising costs are expensed when incurred.

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

### 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.

### New Accounting Pronouncement

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognizes all derivatives as either assets or liabilities in the statement of financial position and measures these instruments at fair value. SFAS No. 133 is effective for the Company in the third quarter of fiscal 2002. The Company is currently evaluating what impact, if any, SFAS No. 133 may have on its financial statements.

### 3. ACQUISITIONS AND SERVICE AGREEMENTS

The following notes refer to the Company's acquisitions and service agreements after July 1, 1999, with the exception of the listing of the LA Internet acquisition, which occurred in the prior fiscal year ending June 30, 1999.

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).

Proforma information (unaudited) for the year ended June 30, 2000:\*

	LA Internet
Revenues	\$ 2,500,000
Cost of Operations & Expense	\$(1,920,000)
Net income (loss)	\$ 580,000
Income or (loss) per share	\$ nil

July 1999 MBM Capital Group was acquired for \$72,000 and 112,667 shares (@ \$.01 per share valued at \$1,127) the company was sold during the fiscal year of acquisition for a \$150,000 note. After the sale MBM



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

ceased operations and the Company considers the note valueless.

In August 1999 and November 1999, the Company purchased Net 2 Loan, an on-line loan processing website and Optical Brigade, an on-line sunglass distribution website from the same outside party, respectively. The total purchase price was 5,050,000 (@ \$.01 per share valued at \$50,500) and 400,000 shares (@ \$.01 per share valued at \$4,000) of restricted company stock, respectively.

Proforma information (unaudited) for the year ended June 30, 2000:*Net	2Loan	Optical Brigade
Revenues	\$ 630,000	\$ 360,000
Cost of Operations & Expense	\$ (310,000)	\$ (150,000)
Net income (loss)	\$ 320,000	\$ 210,000
Income or (loss) per share	\$ nil	\$ nil

In December of 1999, the company entered into a service agreement to market the Company services on the Internet for 6,000,000 shares (@ \$.01 per share valued at \$60,000).

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 (@\$.01 per share valued at \$300) of restricted company stock. Intangible assets purchased totaled \$265,000, consisting of customers lists, website and workforce-in-place and is being amortized over 5 years.

Proforma information (unaudited) for the year ended June 30, 2000:*	Allstates Communications
Revenues	\$ 1,200,000
Cost of Operations & Expense	\$ (900,000)
Net income (loss)	\$ 300,000
Income or (loss) per share	\$ nil

In March 2000, the Company acquired the assets and assumed certain liabilities of Internet 2xtreme, and Internet Service Provider based in Northern California. The total purchase price was \$735,000, which consisted of cash of \$17,635, restricted company stock amounting to \$186,884 (the company issued 124,589 shares based on the current upon a share value of \$1.50 per share) and assumption of certain liabilities. 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, and are being amortized over 5 years.

Proforma information (unaudited) for the year ended June 30, 2000:*	2xtreme
Revenues	\$ 720,000
Cost of Operations & Expense	\$ (600,000)
Net income (loss)	\$ 120,000
Income or (loss) per share	\$ nil

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

Proforma information (unaudited) for the year

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

ended June 30, 2000: *	Global GPP
Revenues	\$ 11,253,224
Cost of Operations & Expense	\$ (5,444,994)
Net income (loss)	\$ 5,808,230
Income or (loss) per share	\$ nil

During this quarter an additional 4,113,871 shares (@. 01 per share valued at \$41,139) for services.

In April 2000, the Company acquired all of the outstanding stock of Atlas Capital Corporation, a mortgage-banking company, for 600,000 (@ \$.01 per share equals \$6,000) shares of Company stock. In connection with the acquisition, the Company acquired assets of approximately \$3,183,000 and assuming 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.

Proforma information (unaudited) for the year ended June 30, 2000:*	Atlas Capital
Revenues	\$ 37,349,000
Cost of Operations & Expense	\$ (2,651,000)
Net loss	\$ (2,498,000)
Loss per share	\$ (nil)

Other acquisitions occurred during the year ending June 30, 2000 were not deemed to be material transactions. All acquisitions are accounted for under the purchase method of accounting and accordingly, the operations and net assets have been included in the Company's consolidated financial statements from the date of acquisition.

\*The unaudited Proforma information has been prepared assuming that material acquisitions during the year ended June 30, 2000 have taken place at the beginning of the respective period presented. The pro forma information is not necessarily indicative of the combined results that would have occurred had the acquisitions taken place at the beginning of the period, nor is it necessarily indicative of the result that may occur in the future. The pro forma for immaterial transactions are not included in the pro forma information.

In October 5, 2000 the Company acquired the auction web site Sonic Auction for 500,000 (@\$.01 per share equals \$5,000) shares of restricted stock as per rule 144. The site primarily was a database and a functioning web auction site. Since the web site did not generate revenue at the time of acquisition it did provide an additional database that the Company could use to cross-market other Company products to; therefore a Proforma was not developed for this acquisition.

#### 4. CERTAIN FINANCIAL STATEMENT INFORMATION

	December 31 2001	June 30 2001
Accounts receivable:		
Accounts receivable	\$ 366,250	\$ 396,977
Less: allowance for doubtful accounts	(72,320)	(196,009)
Accounts receivable, net	\$ 293,930	\$ 200,968

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

Mortgage loans held for sale:		
Mortgage loans held for sale	\$ 6,474,470	\$ 7,049,096
Less: allowance for loan losses	(85,370)	(119,372)
 Mortgage loans held for sale, net	 \$ 6,388,740	 \$ 6,929,724
 Property and equipment:		
Office furniture and equipment	\$ 45,242	\$ 47,155
Machinery and computer equipment	2,801,928	2,239,781
Leasehold improvements	10,026	1,726
Less: accumulated depreciation	(681,771)	(418,881)
 Property and equipment, net	 \$ 2,175,425	 \$ 1,869,781
 Intangible assets:		
Capitalized software costs, including websites	\$ 1,322,518	\$ 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	(791,811)	(451,963)
 Intangible assets, net	 \$ 2,256,211	 \$ 2,543,697

### 5. REVOLVING LINES OF CREDIT

The Company has a master mortgage loan warehousing agreement (credit facility) with a lender that provides 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 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 it is terminable by either party upon written notice. Amounts outstanding under the IMPAC line at June 30, 2001 and 2000, were \$ 6183,228 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

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

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 it 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.

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 2000	9.50%	10.5%	N/A	0
Dec. 31, 2000	9.50%	10.5%	N/A	0
March 31, 2001	8.0%	9.0%	9.0%	0
June 30, 2001	6.75%	7.75%	7.75%	0

\* Imperial line not in use prior to March 2001

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 line 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.

IMPAC Warehouse Lending Group ("IMPAC") stopped funding the Companys loans at end of November 2001, because of the large volume of loans the Company had in processing far exceeded the Companys current line capabilities. Due to this situation the Company applied to PCFS financial services and the company was approved for a new line that will be expandable to meet the Companys funding needs. The terms of this line are the same terms as the previous credit line with IMPAC. This had a negative impact on our staff, and the Company was required to reduce the Guarantee Funding Capital staff to 3 by December 31 2001.

### 6. LONG-TERM DEBT

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

	Current Portion	Long-term	Total
--	-----------------	-----------	-------

Note payable secured by certain Company assets, requiring monthly payments of \$6,494, including interest at 12.25%,

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

due May 5, 2007 \$ 40,506 \$ 283,014 \$ 323,520

During the fiscal year certain real estate loans defaulted. The Companys 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 Companys 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

After review by legal counsel about the predecessor company's (see Note 1) unsecured prior debts, it was determined by legal counsel the Company was no longer liable for certain of the predecessor company's unsecured debt and management elected to write-off the debts during the fiscal year ended June 30, 1999 and is included as an extraordinary item as forgiveness of debt income.

### 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 the end of this quarter there were a total number of 282,736,029 common snares issued and outstanding of which 94,582,267 are restricted.

During this quarter ended December 31, 2001 no additional shares were issued.

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

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

During the quarter ending June 30, 2001 the following shares were issued: 19,499,430 additional for the conversion of the Preferred Stock (that were originally issued December 15, 1998) into common stock.

During the quarter ending December 31, 2000, the following shares were issued: 1. 500,000 shares of restricted 144 stock for the acquisition of Sonic Auction.Com and 2. 7,140,406 shares of common stock were issued pursuant to the agreement with the conversion rights of the Preferred Stock issued December 15, 1998, upon the 10 day average of the closing bid price prior to the conversion date.

During the quarter ending March 31, 2001 the following shares were issued; 18,981,080 in exchange for Preferred Stock that was originally issued December 15, 1998.

During March 2000, the Company issued 7,000,000 shares of common stock through a private placement transaction, resulting in net proceeds to the Company of \$3,382,560.

The Company also issued 6,422,667 and 8,000,000 shares of Company

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

stock in connection with the acquisition of businesses or net assets during the fiscal years ended June 30, 2000, and 1999, respectively. The Company also issued 30,389,449 and 11,242,790 shares of Company stock in connection with services provided or rendered during the fiscal years ended June 30, 2000 and 1999, respectively.

### Preferred Stock

On December 15, 1998, the Company entered into an agreement with Iron Horse Holdings, Inc. ("IHHI"), a privately held company that in which officers or family members of the officers of the Company have minority stock ownership. This agreement consisted of for 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 preferredstock into common stock. There are no preferred shares issued and or outstanding as of this date.

During Fiscal June 30, 2000, the Company received the following payments on the note executed by IHHI:

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

During Fiscal June 30, 2001 the Company received the following payments on the note executed by IHHI,

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

### 9. INCOME TAXES

The provision for income taxes for the second quarter ending December 31 and years ended June 30, 2001 consist of the following (there were no provision for income taxes on the financials due to the net loss carry forward from the previous years operations):

December 31	June 30
-------------	---------

Edgar Filing: INTERNET BUSINESS INTERNATIONAL INC - Form 10-Q

	2001	2001
Current income tax expense:		
Federal	\$ 30,930	\$ 269,795
State	0	0
	30,930	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	\$ 30,930	\$ 269,795
Valuation allowance	(30,930)	(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 begin to expire beginning in 2004.

For the second quarter ended December 31, 2001 and year ended June 30, 2001, 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 the Company moved several of its offices during the first quarter of this fiscal year. This has reduced the Companys monthly obligations for several locations during the 2nd quarter of this fiscal year. The future minimum rental commitments at December31, 2001 under these leases are as follows:

Corporate Headquarters	4634 S. Maryland Pky, Suite 107, Las Vegas, Nev. 89119 \$2451 per month ending 6-02 total \$44,118
West Coast Headquarters	3900 Birch Street, Suite 103, Newport Beach, Ca. 92660 \$2100 per month ending 3-02 total \$31,500
International Headquarters	3 Boicho Voivoda str., 1024 Sofia, Bulgaria (monthly)
Guarantee Capital Group, a Corp	18004 SkyPark Ci. Suite 170, Irvine, Ca. 92614 \$4500 per month ending 9-03 total \$90,000
LA Internet, Inc.	550 Carson Plaza Drive Suite 127, Carson. Ca 90746 \$2250 per month ending 12-04 \$78,750 725 Main St. Suite 12, Woodland, Ca. 95695 \$1270 per month ending 11-03 total \$43,180
E Commerce	1077 Goodman Rd., Hornlake, Mississippi 38637 \$1400 per month ending 9-04 total \$46,200

Several of these locations house more then one subsidiary. The commitment for the Company based upon the aforementioned leases for the remaining quarters of this fiscal year is \$83,826.

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

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 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, 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:

	Six Months Ended	
	December 31 2001	December 31 2000
Full-service ISP		
Revenue	\$ 2,166,014	\$ 1,402,448
Operating income	\$ 594,286	\$ 257,676
Mortgage loan originations held for resale		
Revenue	\$ 1,800,359	\$ 11,173,276
Operating income	\$ 290,619	\$ (548,318)
E Commerce (B-to-b/c)		
Revenue	\$ 99,846	\$ 42,816
Operating income	\$ (46,982)	\$ (134,630)
Marketing (B-to-b/c)		
Revenue	\$ 9,973	\$ 457,862
Operating income	\$ (345,836)	\$ (335,065)
Other		
Revenue	\$ 446,534	\$ 363,385
Unallocated expenses	\$ (397,464)	\$ 28,073
Total		
Revenue	\$ 4,522,726	\$ 13,439,787
Operating income	\$ 94,623	\$ (732,264)

### 12. OTHER EVENTS

#### a. PMCC

On August 2, 2000, the Company announced that it has 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



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

Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust Ronald Friedman, which represents 66.36% of the 3,707,000 PMCC shares outstanding. The aggregate purchase price of \$3,198,000 is 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 of 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 (Case Number SA CV 01-268 DOC (Eex)) for recession of the purchase of the PMCC stock and return of the \$1,006,857 on August 16, 2001 Ronald Friedman, Robert Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust filed an action against the company (Case Number 01CV 7637), for the balance of the contract in the amount of \$2,191,143. The company action was filed in Orange County; CA. and Mr. Friedman's complaint was filed in Southern District, New York. The company feels that it will prevail in both actions.

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.

### b. 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 can 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 Registrant entered into a Stock Purchase Agreement with Auction-Sales.Com, Inc. and its majority shareholder, Zahid Rafiq (collectively, "Seller"), for the purchase by the

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

Registrant of 96.62% of the outstanding and treasury shares of common stock of Auction-Sales.Com, Inc., a Delaware corporation (see Exhibit 10.15 of this Form 10-Q). In exchange for the shares, the Registrant will pay, under the terms of this agreement, the following:

(a) 11,000,000 shares of Registrant's restricted common stock to Seller for all of Seller's Shares, as follows:

- (i) 5,500,000 restricted shares will be issued to current shareholders, identified on the list attached to the Agreement.
- (ii) 2,500,000 restricted shares will be paid to certain creditors of the Registrant identified in an attachment to the Agreement. Seller represents that all of these creditors are unsecured. Seller shall procure signed consents from each creditor confirming the agreement to accept restricted shares in proportion to their claims within 60 days of closing of the transaction. Failure to procure signed consents will justify rescission of this Agreement at the option of the Registrant, such that each party shall restore to the other the consideration which each placed into the Agreement.
- (iii) 3,000,000 restricted shares of the purchase price will be paid to outside consultants for work performed for facilitating the transaction.

(b) Earn out for the "Seller": The Seller shall be paid up to an additional \$3,000,000 based upon earnings over the next 3 years through additional restricted stock. The earn out will be based on a 10% growth per year over the previous years revenue. The \$3,000,000 will be distributed equally over the subsequent 3 year i.e. \$1,000,000 per year, and can be cumulative. This earn out is further defined as follows:

- (i) The initial base Year ends on September 30, 2000. The subsequent year base will be the previous revenue.
- (ii) The stock will be issued per quarter upon reaching the Goal per quarter for that portion of the annualized growth of 10% over the previous year.

(c) The Registrant may invest up to \$2,000,000 in Auction-Sales.Com, Inc., at a rate not to exceed \$500,000 per quarter, based on performance on Auction-Sales.Com as a function of gross revenues and based on a budget, which is pre-approved by the Registrant.

Auction-Sales.Com is an e-commerce pricing application service provider. Auction-Sales.Com has developed a proprietary state of the art hybrid auction platform that address the combined needs of the B2C, B2B and C2C markets. This is accomplished by providing a single integrated marketplace and portal technology that empowers all parties, including manufacturers, distributors, resellers and consumers. The Auction-Sales.Com platform provides supply chain integration and economies of scale in connection with dynamic pricing application targeting businesses and /or consumers.

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 very low expectations of occurring.

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

### 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 Registrant.

#### b. JWC Construction

The agreement, entered into in the ordinary course of business, with the JWC Construction Company of Poland, dated March 9, 2001 which 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 of 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 Registrant.

### 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 Registrant and notes thereto contained elsewhere in this report.

#### Current Operations

The Registrant 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) ISP (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.)  
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, a Corp. 18004 SkyPark Ci. 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

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

(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 Registrant employee over 40 people and has 7 offices, six offices in the US and one in Europe

Results of Operations - Comparison of Quarter Ended December 31 2001 to Quarter Ended December 31, 2000.

(a) Overall

Prior to July 1, 2001, the Registrant recognized the gross loan amount funded as revenue; effective July 1, 2001 the Registrant 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.

Revenues for the second quarter ended December 31, 2001 of \$4,522,726, which is a decrease of approximately 296% when compared with revenues of \$13,439,787 in the prior year. This revenue decrease is mainly due to the change in accounting methods of booking revenue.

Selling, general and administrative expenses for the second quarter ended December 31, 2001 of \$3,598,865 is an increase 3% of when compared to the same expenses of \$3,420,286 for the same time period for the previous fiscal year 2000.

The resulting profit for the six month period ended December 31, 2001 of \$94,623 was a significant increase when compared to the loss of (\$732,264) reported for comparable quarter ended December 31, 2000. The Registrant has concentrated on reducing cost and increasing revenue.

(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:

	Six Months Ended	
	December 31 2001	December 31 2000
Full-service ISP		
Revenue	\$ 2,166,014	\$ 1,402,448
Operating income	\$ 594,286	\$ 257,676
Mortgage loan originations held for resale		
Revenue	\$ 1,800,359	\$11,173,276
Operating income	\$ 290,619	\$ (548,318)
E Commerce (B-to-b/c)		

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

Revenue	\$	99,846	\$	42,816
Operating income	\$	(46,982)	\$	(134,630)
Marketing (B-to-b/c)				
Revenue	\$	9,973	\$	457,862
Operating income	\$	(345,836)	\$	(335,065)
Other				
Revenue	\$	446,534	\$	363,385
Unallocated expenses	\$	(397,464)	\$	28,073
Total				
Revenue	\$	4,522,726	\$	13,439,787
Operating income	\$	94,623	\$	(732,264)

The results for the ISP service (see locations and services listed in Current Operations) for the second quarter ended December 31, 2001 of \$2,166,014 is an increase of 154% when compared to the same period ended December 31, 2000 of \$1,402,448. The increase is from concentration on the high-speed Internet accesses and increase in web sale activities. The profits of \$594,2286 for the six months ended December 31, 2001 is an increase of 231 % for the same period of the previous fiscal year which reported profits of \$257,676. The improvement in the profit margins is due to the fact that the profit margins are greater in the wireless Internet access than the standard dial up access.

The results for the Mortgage Division were impacted by the following reasons:

- (a) The change in the way revenue is recorded; and
- (b) The Mortgage Division generated over \$16,000,000 of mortgage loans that were due to be funded in the last 2 months of the quarter. The IMPAC funding line was at capacity which prevented the Registrant from funding those loans and resulted in the Registrant obtain a different funding line with PCFS in December 2001. This new line didn't become operational in time to save the \$16,000,000 of loans that were approved and ready to fund. This resulted in the Registrant reducing its personnel in that division from over 23 to just 3 by the end of the second quarter.

The results for Mortgage Originations (see location and services listed in Current Operations) for the second quarter ended December 31, 2001 of \$1,800,359 which is a decrease of 494.9% when compared to the same period ended December 31, 2000 of \$11,173,276. The profits of \$290,619 for the six months ended December 31, 2001 is a significant improvement over the same six-month period of the previous fiscal year which reported losses of (\$548,318).

The results for the E Commerce (see location and services listed in Current Operations) for the second quarter ended December 31, 2001 of \$99,846 which was an increase in sales for the same period, ended December 31, 2000 of \$42,816. The loss of (\$46,982) for the six months ended December 31, 2001 is an improvement over loss for the same period of the previous fiscal year, which reported a loss of (\$99,789). The Registrant plans to continue this division's operation and anticipates it becoming profitable by the end of this fiscal year.

The results for the Marketing (see location and services listed in Current Operations) for the second quarter ended December 31, 2001 of \$9,264 is a decrease of 459% when compared to the same period ended December 31, 2000 of \$457,862. The main reason for the decrease was the decision to stop selling cell phones and began marketing Registrant products. The losses of (\$345,836) for the same period are

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

an increase of 9.8 % for the same period of the previous fiscal year, which reported losses of (\$335,065). The increase in the losses was also due to the change over in the marketing of products. The Registrant currently does not use other means of informing the consumer about the products and services that the Registrant offers other than the Internet. The Registrant feels that Direct Marketing is the most effective means to market it's products and services to the non Internet Consumer. The Registrant is still trying to develop an effective direct marketing program.

The results for Other Revenue are from a service charge that is generated from the new marketing services that is provided by corporate to its clients. The revenue of \$446,534 for this period ended December 31, 2001, is not to be compared to the prior period ended December 31, 2000, which revenue of 363,385 from sources other than the current marketing services. The losses of (\$397,464) for the six months ended December 31, 2001 is a decrease from the profits of \$28,073 reported for the same six month period of the previous fiscal year.

### Liquidity and Capital Resources.

Net cash provided by the operations of the Registrant of \$94,623 for the six months ended December 31, 2001, is a significant improvement when compared to the net cash provided by operating activities of (\$732,262) in the comparable prior year period. The Registrant plans on expanding its wireless Internet services at an increased rate and therefore it is considering additional sources for raising capital for this expansion. The increased rate for expansion is due to the greater than expected increase in demand for the wireless Internet services in both Las Vegas, Nevada and Woodland, California. The Mortgage Division will be in the process of rebuilding during the 3rd Quarter and will not a substantial contributor during that quarter as it has been in the past. The Company has sufficient Capital to rebuild the Mortgage Division during third quarter and expect it to be profitable again in the 4th Quarter of this fiscal year.

### Capital Expenditures.

Other than as set forth below, no material capital expenditures were made during the quarter ended on December 31, 2001: purchase infrastructure equipment totaling \$245,405.

### Acquisitions

There were no acquisitions made during the quarter ended December 31, 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 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 and are subject to a number of risks and uncertainties, certain of

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

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

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 Registrant's market risk management includes all market risk sensitive financial instruments.

The Registrant uses several tools and risk management strategies to monitor and address interest rate risk. Such tools allow the Registrant 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 Registrant 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 Registrant charges on funded loans, which is reflected with changes in interest rates. The difference in the cost of funds versus the rate the Registrant funded the mortgage loans could have benefited the company because the cost of funds was less the mortgage interest rate, or the Registrant could lose 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 September 30, 2001:

	Change In Fair Value As Of:	
	December 31 2001	September 30 2001
Prime Rate	4.750%	6.000%
Our Cost of Funds	1.500%	1.500%
Total	6.250%	7.500%
Bond Market	4.900%	4.575%
Consumer Cost of Funds	1.500%	1.500%
Total	6.400%	6.075%
Net Impact Benefit (Loss)	0.150%	(1.425)%

### PART II.

#### ITEM 1. LEGAL PROCEEDINGS.

Other than as set forth below, the Registrant is not a party to any material pending legal proceedings other than ordinary routine

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

litigation incidental to the business and, to the best of its knowledge, no such action by or against the Registrant has been threatened.

The Registrant on March 2, 2001 filed an action in the United States District Court, Central District of California against Ronald Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust (Case Number SA CV 01-268 DOC (Eex)) for rescission of the purchase of the PMCC stock and return of the \$1,006,857. On August 16, 2001 Ronald Friedman, Robert Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust filed an action in the United States District Court, Southern District of New York against the Registrant (Case Number CV 01-7637), for the balance of the contract in the amount of \$2,191,143. Each side has filed an answer to the complaints. The Registrant intends to contest this matter vigorously. Management cannot take any position at this time as to the likely outcome of the matter.

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

The Registrant did not issue any unregistered securities during the quarter ended December 31, 2001.

### 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 second quarter of the fiscal year covered by this Form 10-Q as follows

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.

Internet Business's International, Inc.

Dated: February 13, 2002

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

### EXHIBIT INDEX

Number	Description
--------	-------------



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

- 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 among 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 (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).

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

- 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 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).