

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

INTERNET BUSINESS INTERNATIONAL INC  
Form 10KSB/A  
October 11, 2002

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

FORM 10-KSB/A

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 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 Company 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)

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K . Not Applicable.

The aggregate market value of the voting stock held by non-affiliates of the Company as of September 21, 2002: Common Stock, par value \$0.001 per share -- \$382,736. As of September 21, 2002, the Company had 38,273,603 shares of common stock issued and outstanding.

TABLE OF CONTENTS

PART I	PAGE
ITEM 1. BUSINESS	3
ITEM 2. PROPERTIES	15

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

ITEM 3.	LEGAL PROCEEDINGS	16
ITEM 4.	SUBMISSION TO MATTERS TO VOTE OF SECURITY HOLDERS	16
PART II		
ITEM 5.	MARKET FOR COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	16
ITEM 6.	SELECTED FINANCIAL DATA	18
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	18
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	23
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	24
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	24
PART III		
ITEM 10.	DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY	24
ITEM 11.	EXECUTIVE COMPENSATION	25
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	26
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	27
PART IV		
ITEM 14.	EXHIBITS, REPORTS ON FORM 8-K, AND INDEX TO FINANCIAL STATEMENTS	28
SIGNATURES		29

### PART I.

#### ITEM 1. BUSINESS.

##### Introduction.

Internet Business's International, Inc. ("Company") is a broad based Internet company that provides goods and services over the Internet to businesses and consumers through three operating divisions: (1) ISP (Internet Service Provider); (2) On-line Lending; and (3) Direct Marketing.

Our corporate mission is one of unification and synergy. We accomplish this mission by empowering our operating divisions with the benefits of top-notch administration and management, and enabling economies of scale by aggregating many business functions. The Company's vision is to build a world-class on-line enterprise that is many times the sum of its parts.

##### History of the Business.

International Food and Beverage was listed for exchange on the Over The Counter Bulletin Board in June 1988. This company operated in the food services industry until late 1997, at which time it ceased operations. This firm remained dormant until December of 1998. At that time new management was put in place, and a decision was made to move the Company's focus to the Internet and change the Company's name to Internet Business's International, Inc.

On January 1, 1999 the newly named company began to offer goods and services over the Internet, starting with the development of an

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

on-line B2C (business to consumer) e-retail site, AuctionWinner.com, The site was launched in April 1999. In July 1999, the Company expanded their service offerings by acquiring an ISP (Internet Service Provider) by the name of LA Internet. The Company changed its domicile from Delaware to Nevada in same year.

Current Operations.

The Company currently operates three reporting divisions:

- (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.)
- (2) On-line Lending (which includes real estate loans and equipment leasing.) Before the end of the fiscal year this division was closed and the Company is now reviewing its options regarding this division.
- (3) Direct Marketing (which includes the direct marketing of long distance phone services, computers with Internet access, wireless high speed Internet access and bandwidth.)

The Company has 3 offices in the US and 1 in Europe and more than 20 employees.

Operating Divisions

- (a) ISP.

The ISP division operates four businesses that serve three distinct customer groups (dial-up ISP, wireless ISP, web site design / hosting)

- (1) 2 X, Inc. (www.2xaccess.com)  
Los Angeles, California; Woodland, California

2X, Inc (formerly LA Internet, Inc.) a wholly owned subsidiary of the Company, is a full service dial-up ISP and web site hosting business. 2X provides nationwide dial-up access for consumers and businesses. This company also provides hosting and co-location (server farm) services to individuals and businesses. 2X employs state of the art equipment from Sun, Dell, Cisco, and BreezeCom. T1 and T3 level bandwidth providers include major national backbones such as Cogent and MCI.

Revenue is generated though monthly fees charged for dial-up Internet access and web site hosting. LA Internet currently has 9 employees.

- (2) 2X Design (www.2xdevelopment.com)  
Los Angeles, California; Sofia, Bulgaria

2X Internet Design (an operating division of 2X, Inc.) is full service web site design and development agency. This company offers a full portfolio of offerings: strategic planning, creative design, programming, and on-line marketing plans for individuals, businesses, and government agencies.

In addition to offering professional services, 2X Design retails a product called Site Creator - in strategic partnership with Network Solutions. Site Creator allows individuals or businesses to create their own web sites. These sites are then hosted by 2X, Inc..

Revenue is generated though hourly or fixed price fees for

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

professional services, and though the retail sale of Site Creator. 2X Design currently has 3 employees.

- (3) 2X Wireless ([www.2xwireless.com](http://www.2xwireless.com))  
Las Vegas, Nevada; Moreno Valley and Woodland, California

2X Wireless (an operating division of 2X, Inc.) operates a RF (Radio Frequency) type wireless ISP in several major west coast geographies: Las Vegas, Nevada; Moreno Valley, California; and Woodland, California. 2X provides Internet access to individuals and businesses at speeds up to 3 MB (megabits) per second.

Revenue is generated though monthly fees charged for wireless Internet access. 2X currently has 5 employees.

(b) On-line Lending Division

- (1) Guarantee Capital Group ([www.gcapgp.com](http://www.gcapgp.com))  
Carson, California

Guarantee Capital Group (a wholly owned subsidiary of the Company) is a mortgage banking company that processes and funds loans for homes. Guarantee's customers are primarily consumers that are applying for a first mortgage on a qualifying home. Guarantee generates qualified applicants though on-line marketing campaigns and through their web sites ([www.glendgp.com](http://www.glendgp.com)) and ([www.gcapgp.com](http://www.gcapgp.com)).

Guarantee approved and funded loans according to Freddie Mac and Fannie Mae conforming and non-conforming underwriting criteria. Institutions such as RFC, Sun Trust and Internist, may purchase "bulk" loans from Guarantee.

Revenue was generated through loan fees, processing fees, and yields based upon interest earned over the life of the loan and the cost of the funds.

Guarantee Capital Group was closed at the end of the current fiscal year ending June 30, 2002 and currently has 0 employees. The Company has yet to decide whether to reopen this subsidiary or not.

- (2) Discount On-line Leasing ([www.discountonlineleasing.com](http://www.discountonlineleasing.com))  
Laguna Hills, California

Discount On-line Leasing (an operating division of the Company) markets equipment-leasing solutions to small businesses. This company markets solutions for a wide range of equipment assets, including agricultural, computing, communications, office, machine tool, and manufacturing equipment. Discount On-line Leasing provides equipment leases to businesses the United States and Canada. The leases are funded though a number of finance companies that specialize in capital equipment funding.

Revenue is generated though commissions paid on the successful acceptance of leases. Discount On-line Leasing currently has 1 employee.

(c) Direct Marketing Division

- 1st2 Market, Inc. ([www.1st2mart.com](http://www.1st2mart.com))  
Las Vegas, Nevada

1st2 Market\* (a wholly owned subsidiary of the Company) direct markets goods and services to individuals and businesses. Types of

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

offers that 1st2 Market represents are computers bundled with Internet access, long distance offers, and cellular telephone hardware and calling plans. 1st2 Market markets its offers through print and on-line channels with a heavy emphasis on leveraging other Internet Business' International web sites.

Commissions paid on orders processed generate revenue. 1st2 Market currently has 1 employee.

Corporate  
Las Vegas, Nevada, Los Angeles, California

The Company maintains an administration and support group in Nevada and California. The group supports the operating divisions and administers the public filings and financial statements. This office has 3 employees.

Market and Competition.

The market for Internet products and services is highly competitive. Taking into consideration the advances Internet technology and the ubiquity simple web site provide, there are no substantial barriers to entry in this market, and management expects that competition will continue to intensify. Negative competitive developments could have a material adverse effect on the Company's business and on the trading price of its stock.

The majority of the Company revenue came from on-line loans until December 2001, when the mortgage lending on line subsidiary was closed. The main revenue for the Company is currently for the Internet services provide by the Company. The Company competes with many other companies that offer the same type of Internet-only services we offer - such as ISP services. The Company competes with its direct marketing division with many other similar direct marketing companies.

As the Company expands the scope of its Internet services, it will compete directly with a greater number of Internet sites and other similar type of companies across a wide range of different on-line and off-line services. The Company also competes in vertical markets where competitors may have advantages in expertise, brand recognition, and other factors. Many companies offer directly competitive products or services information and community services, including, among others: America On-line; Yahoo; InfoSeek Corporation; Lycos, and Microsoft Corporation (msn.com).

During the past 12 months, there have been a number of business failures that have negatively impacted Internet Companies. Of note are the Excite at Home, MCI and Covad bankruptcies. Strategic alliances of companies have also impacted the Internet market place for example the SBC and Yahoo alliance where SBC offers DSL service to Yahoo customers. Also the mergers of the past years which include: Walt Disney Company acquiring a significant interest in InfoSeek; AOL acquiring Time Warner and Netscape; and AT&T, acquiring cable television infrastructure with the acquisition of Media One, have impacted the Internet Companies. When you include the general down turn in the market place due to the disclosure of accounting irregularities by major public companies such as Enron and AOL, which adds to the negative impact in the stock market overall.

These occurrences have also impacted the availability of funds for all Companies seeking expansion capital. The Company cannot determine

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

that funds needed by the Company for expansion would be available when required. It is all so noted that competitors of the Company are significantly larger or better established than the Company. As a result, each of them will have access to significantly greater financial, marketing and, in certain cases, technical resources than the Company.

These and other competitors are expected to continue to make substantial marketing expenditures to promote their on-line properties. The Company may be required to increase its sales and marketing expenditures significantly in response to these efforts, which may materially impair its operating results and may not be a success.

Management believes that the principal competitive factors in its markets are: brand recognition; ease of use; comprehensiveness; personalization; independence; quality and responsiveness of search results and other services; the availability of high-quality, targeted content and focused value-added products and services; access to end users; and with respect to advertisers and sponsors, the number of users, duration and frequency of visits, and user demographics. Competition among current and future suppliers of Internet information, communication, community and commerce services, high-traffic web sites and ISPs, as well as competition with other media for advertising placements, could result in reductions revenues. (See chart below)

The following divisions have direct competition as follows;

Sector	Subsidiary	Competition	Stock Symbol
ISP			
Dialup	2x access	Internet America	(geek, OTCBB)
Wireless	2x wireless	Go America	(goam, NASD)
Web design	2x development	Genesis Intermedia	(gene, OTCBB)
On-line Lending Mortgages	Guarantee Capital	Electronic Mortgage	(embi, OTCBB)
Leasing	Discount On-line Leasing	leaseforce.com	N/A
Direct Marketing	1st2 Market	directoneusa.com	N/A

The Company also faces competition with respect to the acquisition of strategic businesses and technologies. Many of its existing competitors, as well as a number of potential new competitors, have significantly greater financial, technical, marketing and distribution resources than the Company does. In addition, providers of Internet tools and services may be acquired by, receive investments from, or enter into other commercial relationships with larger, well-established and well-financed companies, such as Microsoft and AOL. In addition, well-established traditional media companies may acquire, invest or otherwise establish commercial relationships with its competitors. These larger companies may use their substantial media resources to promote and enhance their own services. Greater competition resulting from such relationships could have a materially adverse effect on the Company's business.

Strategic Alliance and Agreement.

The recent alliance of the Company with MCI has increased the companies and its subsidiaries' ability to offer high speed DSL

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

service national through this s agreement.

### Marketing Plans.

The Company competes with other on-line services, web site operators and advertising networks, as well as traditional off-line media such as television, radio and print to convey to the consumer the services and products that are offered by the Company. The Company has used Print, Radio, and Television to inform the public and consumer of these products and services. Accordingly, the Company may face increased pricing pressure for the purchase of advertisement space. The Company therefore has also developed alternative marketing plans that uses direct marketing, cross promotion and bundling of services and products to increase its client base

### Proprietary Rights.

The Company regards its copyrights, trademarks, trade dress, trade secrets, and similar intellectual property as critical to its success. The Company relies upon trademark and copyright law, trade secret protection and confidentiality or license agreements with its employees, customers, partners and others to protect its proprietary rights. Effective trademark, copyright, and trade secret protection may not be available in every country in which its products and media properties are distributed or made available through the Internet. The distinctive elements of the Company's web sites may not be protected under copyright law. Management cannot guarantee that the steps the Company has taken to protect its proprietary rights will be adequate. Many parties are actively developing communication, community, e-commerce, and other web-related technologies. Management believes that such parties will continue to take steps to protect these technologies, including seeking patent protection. As a result, management believes that disputes regarding the ownership of such technologies are likely to arise in the future. For example, management is aware that a number of patents have been issued in the areas of electronic commerce, on-line auctions, web-based information, on-line direct marketing, fantasy sports, common web graphics formats and mapping technologies. Management anticipates that additional third-party patents will be issued in the future. From time to time these parties may assert patent infringement claims against the Company. Management cannot guarantee that it would be able to license such patents on reasonable terms. The Company may incur expenses in defending against third-party patent claims regardless of the merit of such claims. In the event that there is a determination that the Company has infringed such third-party patent rights, the Company could incur monetary liability and be prevented from using the rights in the future.

### Employees.

As of the date of this filing, the Company had over 20 employees. This is a reduction from the same time last year when the company had 60 employees. The reduction of the employees was due to the changes made December 1, 2001 with the staff reductions in the ISP division; mortgage lending division and the direct marketing division. The Company's future success is substantially dependent on the performance of its senior management and key technical personnel, and its continuing ability to attract and retain highly qualified technical and managerial personnel.

### Risk Factors.

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

In addition to the other information in this Report, the following particular risk factors may be encountered in the operation of the Company under its current plan of business:

(a) Limited Operating History.

The Company has only begun operations as an Internet company since January 1, 1999. Therefore, the Company has a limited operating history, and its prospects are subject to the risks, expenses and uncertainties frequently encountered by young companies that operate exclusively in the new and rapidly evolving markets for Internet products and services. Successfully achieving its growth plan depends on, among other things, the Company's: ability to continue to develop and extend its brand; ability to develop new web site properties; ability to maintain and increase the levels of traffic on its internet properties; development or acquisition of services or products equal or superior to those of the Company's competitors; ability to effectively generate revenues through sponsored services and placements on the Company's internet web site properties; ability to effectively integrate the technology and operations of businesses or technologies which the company may acquire; ability to successfully develop and offer new personalized web-based services, such as e-mail services, to consumers without errors or interruptions in service; and ability to identify, attract, retain and motivate qualified personnel. Furthermore, the success of the Company's growth plan depends on factors outside its control including, among other things: the adoption by the market of the web as an E-Commerce medium; the successful sale of web-based services by the Company's sales agents; and the relative price stability for web-based services and products, despite competition and other factors that could reduce market prices. The Company may not be successful in implementing its growth plan or continuing to operate its business as anticipated.

(b) Operating Results May Fluctuate.

The Company expects to derive the majority of its revenues from a variety of revenue sources, which are difficult to forecast accurately. As noted above, the Company expects its operating expenses to increase significantly over the near term. To the extent its expenses increase but its revenues do not, its business, operating results, and financial condition will be materially and adversely affected. Operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside its control. These factors include: the level of usage of the Company's Internet sites, and the demand for the products and services that the Company offers over the Internet, the amount and timing of capital expenditures and other costs relating to the expansion of its operations; the introduction of new products or services by the Company or its competitors; pricing changes for internet-based services, the timing of initial set-up, engineering or development fees that may be paid in connection with larger area distribution arrangements; technical difficulties with respect to the online web site properties that the Company may develop; costs incurred with respect to acquisitions; negative general economic conditions and resulting effects on economic conditions specific to the internet and online media.

A key element of the Company's strategy is to generate revenues through services and products from its online media properties and its direct marketing operations. In connection with these, the Company will receive fees as well as a portion of transaction revenues received by business that is originated through the Company



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

sites. This type of revenue generation exposes the Company to potentially significant financial risks, including: the risk that the Company fails to obtain the minimum level of revenue required to maintain the operational expenses of the Company.

### (c) Dependence on Continued Growth in Use of the Internet; Technological Change.

The Company's future success is dependent upon continued growth in the use of the Internet and the web in order to support the sale of its products and services and its online web site properties. The Companies Internet businesses are relatively new, and it is difficult to predict the extent of further growth, if any, in from these sites. The Internet may not prove to be a viable commercial marketplace for a number of reasons, including lack of acceptable security technologies, potentially inadequate development of the necessary infrastructure, or timely development and commercialization of performance improvements. To the extent that the Internet continues to experience significant growth in the number of users and level of use, the Internet infrastructure may not be able to support the demands placed upon it by such growth and the performance or reliability of the web may be adversely affected.

The market for Internet products and services is characterized by rapid technological developments, evolving industry standards and customer demands, and frequent new product introductions and enhancements. To the extent that higher bandwidth internet access becomes more widely available through cable modems or other technologies, the Company may be required to make significant changes to the design and content of its online properties in order to compete effectively. Failure to effectively adapt to these or any other technological developments may adversely affect its business, operating results, and financial condition.

The markets for the Company's products and services have only recently begun to develop, are rapidly evolving, and are increasingly competitive. Demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty and risk. It is difficult for management to predict whether, or how fast, these markets will grow. The Company cannot guarantee either that the market for its products and services will continue to develop or that demand for its products and services will be sustainable. If the market develops more slowly than expected or becomes saturated with competitors, or if its products and services do not sustain market acceptance, its business, operating results, and financial condition may be materially and adversely affected.

### (d) Risks Associated with Brand Development.

The Company believes that establishing and maintaining its brand is a critical aspect of its efforts to attract and expand its user base. Management also believes that the importance of brand recognition will increase due to the growing number of Internet sites and the relatively low barriers to entry. Promotion and enhancement of the Company's brand will depend largely on its success in providing high-quality products and services. In order to attract and retain Internet users and to promote and maintain its brand, the Company may find it necessary to increase expenditures devoted to creating and maintaining brand loyalty. In the event of any breach or alleged breach of security or privacy involving its services, or if any third party undertakes illegal or harmful actions utilizing its community, communications or commerce services, the Company could

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

suffer substantial adverse publicity and impairment of its brand and reputation. If the Company is unable to provide high-quality products and services or otherwise fails to promote and maintain its brand, or if it incurs excessive expenses in an attempt to improve its products and services or promote and maintain its brand, its business, operating results, and financial condition may be materially and adversely affected.

### (e) Possible Inability to Successfully Enhance or Develop Properties.

To remain competitive, the Company must continue to enhance and improve the functionality, features, and content of its web site properties. The Company may not be able to successfully maintain competitive user response times or implement new features and functions, which will involve the development of increasingly complex technologies. Personalized information services, such as its web-based email messaging services, message boards, and other community features, require significant expense. The Company cannot guarantee that additional revenues from these services will offset this additional expense.

A key element of its business strategy is the development and introduction of new particular demographic characteristics, and geographic areas. The Company may not be successful in developing, introducing, and marketing such web site properties and such properties may not achieve market acceptance, enhance its brand name recognition, or increase user traffic. Furthermore, enhancements of or improvements to the Company's new properties may contain undetected errors that require significant design modifications, resulting in a loss of customer confidence and user support and a decrease in the value of its brand name. Its ability to successfully develop additional targeted media properties depends on use of the Company to promote such properties. If use of the Company's web site properties does not continue to grow, its ability to establish other targeted properties would be adversely affected. If the Company fails to effectively develop and introduce such new properties, or such properties fail to achieve market acceptance, its business, results of operations, and financial condition may be adversely affected.

### (f) Management of Potential Growth and Integration of Acquisitions.

The Company's growth may place substantial strains on its financial systems and its systems to train and manage its employee base. The process of managing large, high traffic web sites is an increasingly important and complex task. This relies on both internal and licensed third-party management and analysis systems. To the extent that the Company does not have the appropriate inventory or any extended failure of its management system results "make good" obligations with its customers, which, could defer revenues. Failure of its management systems to effectively scale to higher levels of use or to effectively track and provide accurate and timely E-Commerce reports and also could negatively affect its relationships with its customers. The Company's systems, procedures, or controls may not be adequate to support its operations, particularly with regard to support and service. Its management may not be able to achieve the rapid execution necessary to fully exploit its market opportunity. Any inability to effectively manage growth may have a materially adverse effect on its business, operating results, and financial condition.

As part of its business strategy, the Company may, from time to time, make acquisitions or enter into other forms of business

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

combinations. These transactions are accompanied by a number of risks, including: the difficulty of assimilating the operations and personnel of the acquired companies; the potential disruption of its ongoing business and distraction of management; the difficulty of incorporating acquired technology or content and rights into its products and media properties; the correct assessment of the relative percentages of in-process research and development expense which can be immediately written off as compared to the amount which must be amortized over the appropriate life of the asset; the failure to successfully develop an acquired in-process technology could result in the impairment of amounts currently capitalized as intangible assets; unanticipated expenses related to technology integration; the maintenance of uniform standards, controls, procedures and policies; the impairment of relationships with employees and customers as a result of any integration of new management personnel; and the potential unknown liabilities associated with acquired businesses. The Company may not be successful in addressing these risks or any other problems encountered in connection with such acquisitions.

### (g) Risk of Capacity Constraints and Systems Failures.

The Company is dependent on its ability to effectively withstand a high volume of use of its online web site properties. Accordingly, the performance of its online web site properties is critical to its reputation, its ability to attract advertisers to its web sites, and to achieve market acceptance of its products and web site properties. Any system failure that causes an interruption or an increase in response time of its products and media properties could result in less traffic to its web sites and, if sustained or repeated, could reduce the attractiveness of its products and media properties to advertisers and licensees. An increase in the volume of queries conducted through its products and media properties could strain the capacity of the software or hardware the Company has deployed, which could lead to slower response time or system failures. In addition, as the number of web pages and users increase, its products and media properties and infrastructure may not be able to scale accordingly. Personalized information services, such as web-based email-type messaging services and other community and communication facilities, and the posting of photographs on its auction properties, involve increasingly complex technical and operational challenges that may strain its development and operational resources. The Company may not be able to successfully implement and scale such services to the extent required by any growth in the number of users of such services. Failure to do so may affect the goodwill of users of these services, or negatively affect its brand and reputation.

The Company is dependent on third parties for much of its technology and infrastructure. The Company's operations are susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins, and similar events. The Company does have multiple site capacity, which would reduce the impact in the event of any such occurrence. Despite its implementation of network security measures, its servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with its computer systems. The Company does not carry business interruption insurance to compensate for losses that may occur as a result of any of these events. Such events may have a materially adverse effect on its business, operating results, and financial condition.

### (h) Government Regulation and Legal Uncertainties.

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

There are currently few laws or regulations directly applicable to Internet access or to commerce on the net. Due to the increasing popularity and use of the internet, it is possible that laws and regulations may be adopted, covering issues such as user privacy, defamation, pricing, taxation, content regulation, quality of products and services, and intellectual property ownership and infringement. Such legislation could expose the Company to substantial liability. Such legislation could also dampen the growth in use of the web, decrease the acceptance of the web as a communications and commercial medium, or require the Company to incur significant expense in complying with any new regulations. In addition, several telecommunications carriers, including America's Carriers' Telecommunications Association, are seeking to have telecommunications over the web regulated by the Federal Communications Commission in the same manner as other telecommunications services.

Because the growing popularity and use of the web has burdened the existing telecommunications infrastructure and many areas with high web use have begun to experience interruptions in phone service, local telephone carriers, such as Pacific Bell, have petitioned the FCC to regulate ISPs and Sops and to impose access fees. Increased regulation or the imposition of access fees could substantially increase the costs of communicating on the web, potentially decreasing the demand for its products and media properties. A number of proposals have been made at the federal, state and local level that would impose additional taxes on the sale of goods and services through the Internet. Such proposals, if adopted, could substantially impair the growth of electronic commerce, and could adversely affect the Company's opportunity to derive financial benefit from such activities.

The Digital Millennium Copyright Act, which is intended to reduce the liability of online service providers for listing or linking to third-party web sites that include materials that infringe copyrights. Also the Children's Online Protection Act and the Children's Online Privacy Act, which will restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. Further, Congress recently passed (and the President has signed into law) the Protection of Children from Sexual Predators Act, which mandates that electronic communication service providers report facts or circumstances from which a violation of child pornography laws is apparent. The Company is currently reviewing these pieces of legislation, and cannot currently predict the effect, if any, that such legislation will have on its business. There can be no assurance that such legislation will not impose significant additional costs on its business or subject the Company to additional liabilities.

In addition, a number of other countries have announced or are considering additional regulation. For example, the European Commission privacy directive restricts the use of personal information without the consent of both the individual and that individual's government. Such restrictions could jeopardize the future of e-commerce in and with the European Union. In addition, the European Commission is expected in the near future to propose a directive concerning the liability of online service providers for activities that take place using their services. Such laws and regulations could fundamentally impair the Company's ability to provide Internet services, or substantially increase the cost of doing so. Moreover, the applicability to the Internet of existing

laws governing issues such as property ownership, copyright, defamation, obscenity, and personal privacy is uncertain. The Company may be subject to claims that its services violate such laws. Any such new legislation or regulation in the United States or abroad or the application of existing laws and regulations to the Internet could have a material adverse effect on its business, operating results, and financial condition. Due to the global nature of the web, it is possible that the governments of other states and foreign countries might attempt to regulate its transmissions or prosecute the Company for violations of their laws. The Company might unintentionally violate such laws. Such laws may be modified, or new laws enacted, in the future. Any such developments may have a materially adverse effect on its business, results of operations, and financial condition.

(i) Liability for the Company's Services.

The Company hosts a wide variety of information, community, communications and commerce services that enable individuals to exchange information, generate content, conduct business and engage in various online activities. The laws relating to the liability of providers of these online services for activities of their users are currently unsettled. Claims could be made against the Company for defamation, negligence, copyright or trademark infringement, personal injury or other theories based on the nature and content of information that may be posted online by its users. Such claims have been brought, and sometimes successfully pressed, against online service providers in the past. In addition, the Company could be exposed to liability through content and materials that may be posted by users in auctions, message boards, clubs, chat rooms, or other interactive community-building services. Such claims might include, among others, that by providing hypertext links to web sites operated by third parties, the Company is liable for copyright or trademark infringement or other wrongful actions by such third parties through such web sites, or that the Company is responsible for legal injury caused by statements made to, actions taken by or content generated by, participants in its message board services, clubs, or other community building services. It is also possible that if any information that may, in the future, be provided through its services, such as stock quotes, analyst estimates or other trading information contains errors, third parties could make claims against the Company for losses incurred in detrimental reliance on such information. The Company offers web-based e-mail type messaging services, which expose it to potential risks, such as liabilities or claims resulting from lost or misdirected messages, illegal or fraudulent use of messages, or interruptions or delays in messaging services. Investigating and defending such claims are expensive, even to the extent such claims do not result in liability.

The Company may also, from time to time, enter into arrangements to offer third-party products and services under the Company's brand or via distribution on its properties. While its agreements with these parties would provide that the Company would be indemnified against liabilities, such indemnification may not be adequate. The Company may be subject to claims concerning such services or content by virtue of its involvement in marketing, branding or providing access to such services. Any such claims may have a materially adverse effect on its business, results of operations, and financial condition.

(j) Potential Commerce-Related Liabilities and Expenses.

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

As part of its business, the Company enters into agreements with businesses, sponsors, content providers, service providers, and merchants under which the Company is entitled to receive a share of revenue from the purchase of goods and services by users of its web site properties. Such arrangements may expose the Company to additional legal risks and uncertainties, including potential liabilities to consumers of such products and services. These activities expose the Company to a number of additional risks and uncertainties, including: potential liabilities for illegal activities that may be conducted by participating merchants; products liability or other tort claims relating to goods or services sold through hosted commerce sites; consumer fraud and false or deceptive advertising or sales practices; breach of contract claims relating to merchant transactions; claims that materials included in merchant sites or sold by merchants through these sites infringe third-party patents, copyrights, trademarks or other intellectual property rights, or are libelous, defamatory or in breach of third-party confidentiality or privacy rights; claims relating to any failure of merchants to appropriately collect and remit sales or other taxes arising from e-commerce transactions; and claims that may be brought by merchants as a result of their exclusion from its commerce services or losses resulting from any downtime or other performance failures in its hosting services.

### ITEM 2. PROPERTIES.

The consolidated Company has over \$1,900,000 in equipment and furniture at a variety of co-locations for Internet wireless, and server equipment plus the following office locations;

Internet Business's International, Inc.

Corporate Headquarters            4634 S. Maryland Pkwy, 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

Subsidiaries of Internet Business's International, Inc. (current as of June 30, 2002)

1 st 2 Market, Inc.                4634 S. Maryland Pkwy, Suite 107, Las Vegas, Nev. 89119

2X Inc.                                4634 S. Maryland Pkwy, Suite 107, Las Vegas, Nev. 89119

3 Boicho Voivoda str., 1024 Sofia, Bulgaria

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

725 Main St. Suite 12, Woodland, Ca. 95695

Several of these locations house more than one subsidiary.

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

\*\*This location will be used for the On Line Lending Division if it

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

is reopened.

### ITEM 3. 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 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 company (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 Company intends to contest this matter vigorously. Management cannot take any position at this time as to the likely outcome of the matter.

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

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of the fiscal year covered by this report.

## PART II.

### ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

#### Market Information.

The common stock of the Company is traded on the Over the Counter Bulletin Board under the symbol "IBUI" and the range of closing bid prices shown below is as reported by the this market place. The quotations shown reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

For the Fiscal Year Ended June 30, Per Share Common Stock Bid Prices by Quarter

		2002		2001	
		High	Low	High	Low
1st Quarter	9-30	0.009	0.008	0.3125	0.1562
2nd Quarter	12-31	0.014	0.008	0.125	0.0625
3rd Quarter	3-31	0.007	0.007	0.0781	0.0469
4th Quarter	6-30*	0.013	0.008	0.05	0.03

\*June 30, 2002 is post the 1 for 10 reverse split.

#### Holder of Common Equity

As of June 30, 2002 there were 521 shareholders of record of the Company's Common Stock.

#### Dividends

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

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 split shares of the Company. On July 8 the Company announced that the record date of July 17, 2002 for the shareholders to receive the dividend. On July 18, 2002 the Company announced the date of distribution to be August 30, 2002. By September 15, the Transfer agent was working with DTC to complete the issuance of the divided CRT Corp. restricted to its shareholders.

### Equity Securities Sold Without Registration

The Company made the following sales of unregistered securities during the fiscal year ended:

(a) During the quarter ended December 31, 2000, the Company issued the following shares of common stock: (a) 500,000 shares of restricted 144 stock for the acquisition of Sonic Auction.Com; and (2) 7,140,406 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 to the conversion date.

(b) During the quarter ended March 31, 2001, the Company issued the following shares of common stock: 18,981,080 on conversion of additional preferred stock that was originally issued December 15, 1998 (as discussed in subparagraph (a) above).

(c) During the quarter ended June 30, 2001, the Company issued the following shares of common stock: 19,499,430 on conversion of additional preferred stock that was originally issued December 15, 1998 (as discussed in subparagraph (a) above).

No commissions or fees were paid in connection with these sales. All of the above sales were undertaken pursuant to the limited offering exemption from registration under the Securities Act of 1933 as provided under Rule 506 of Regulation D by the fact that:

- the sales were made to sophisticated investors as defined in Rule 502;
- the information specified in paragraph (b)2(ii)(B) and paragraph (b) (2) (ii) (C) of this section was provided to each investor;
- the Company gave each purchaser the opportunity to ask questions and receive answers concerning the terms and conditions of the offering and to obtain any additional information which the Company possessed or could acquire without unreasonable effort or expense that is necessary to verify the accuracy of information furnished;
- at a reasonable time prior to the sale of securities, the Company advised the purchasers of the limitations on resale in the manner contained in paragraph Rule 502(d)2 of this section;
- neither the Company nor any person acting on its behalf sold the securities by any form of general solicitation or general advertising; and
- the company exercised reasonable care to assure that the purchasers of the securities are not underwriters within the



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

meaning of section 2(11) of the Securities Act of 1933 in compliance with Rule 502(d).

### ITEM 6. SELECTED FINANCIAL DATA.

The selected financial data for the years ended June 30, 2002, 2001, 2000, 1999, and 1998, are derived from the audited financial statements of the Company and should be read in conjunction with the audited financial statements included herein. These are restated based upon the change in revenue recognition. See Note 2 of the footnotes to the financial statements titled "Change in Revenue Recognition". The change only impacted the stated "Revenues" and not the "Net income".

	Year End June 30				
	2002	2001	2000	1999	1998
Statement of Operations Data:					
(in thousands)					
Revenues	\$ 5,895	\$ 7,206	\$ 2,332	\$ 141	\$ 2,378
Cost of revenues	37	307	1,098	23	2,248
Sales General & admin exp.	5,240	5,921	3,107	43	525
Depreciation & Amont. exp	2,050	870	791	157	366
Net operating income (loss)	(1,432)	107	(2,665)	(82)	(1,160)
Net other income and expense	1,005	687	44	2,250	0
Net income (loss)	(426)	794	(2,596)	2,168	(1,160)
Per common share net	(.01)	nil	nil	0.01	nil
Weighted average shares outstanding	29,106	250,907	189,580	164,550	158,060

	Year End June 30				
	2002	2001	2000	1999	1998
Balance Sheet Data:					
(In thousands)					
Current assets	375	7,661	4,826	395	1
Fixed assets	3,419	4,413	3,459	0	0
Total assets	5,795	12,074	8,932	4,015	1,102
Current liabilities	631	6,902	3,602	30	1,819
Long-term debt	576	1,168	204	0	455
Shareholders' equity (deficiency)	4,587	4,004	5,139	3,985	(2,273)

The Company has not paid dividends in any of the periods presented.

### ITEM 7. 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.

#### Results of Operations.

##### (a) Comparison by Segment

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") provider. Such determination was based on the

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

level at which executive management reviews the results of operations in order to make decisions regarding performance assessment and resource allocation.

Full service Internet service provider serves customers requiring Internet access in the western United States through dial-up, and high-speed wireless; web hosting and web design. Mortgage banking business includes online mortgage loan origination, processing, servicing and resales, (which ceased operations in June 2002). 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:

Fiscal Year Ended	June 30 2002	June 30 2001
Full-service ISP		
Net sales	\$ 3,437,011	\$ 4,912,285
Operating income	290,448	\$ 2,037,932
Mortgage loan originations held for resale		
Net sales	\$ 1,845,991	\$ 1,073,147
Operating income	\$ 17,358	\$ (83,571)
Marketing (B-to-b/c)		
Net sales	\$ 9,973	\$ 495,251
Operating income	\$ (372,019)	\$ (825,858)
Other		
Net income	\$ 602,611	\$ 725,984
Unallocated expense	\$ (362,008)	\$ (334,986)
Total		
Net sales	\$ 5,895,586	\$ 7,206,667
Operating income	\$ (426,221)	\$ 793,517

(b) Comparison of Year to Year.

(1) Fiscal 2002 Compared to Fiscal 2001

Revenues for the twelve-month period ended June 30, 2002 of \$5,895,586 decreased approximately 18.2% when compared with revenues \$7,206,667 of in the prior year. This revenue decrease is due to the Company's ISP loss of revenue for the following reasons; from the dial-up, due to attrition and the Company not actively seeking additional dial-up accounts, hosting and web design account due to a vast number of clients either going out of business and or reducing it's expenditures for internet related activities. The mortgage loan originations increased in revenue and reported a profit for the year even though the mortgage lending division only operated through the end of December 2001. Even with those factor both the ISP and the Mortgage division reported a profit for those divisions. The direct marketing division continues to loss money and the associated cost of corporate operations produced the net loss for the fiscal year.

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

The resulting loss for the twelve-month period ended June 30, 2002 of (\$426,221) was a significant decrease when compared to the net income of \$793,517 reported for the year ended June 30, 2001. An additional \$1,005,970 profit generate form the sale of the e-commerce division which reduced the loss for the year and is outside the norm of revenue sources for the Company and is not representative of on going source of revenue for the Company.

### (2) Fiscal 2001 Compared to Fiscal 2000

Revenues for the twelve-month period ended June 30, 2001 of \$7,206,667 increased approximately 308.7% when compared with revenues of \$2,332,848 in the prior year. This revenue increase is due to the Company's ISP and mortgage loan originations increase in revenue. The ISP wireless division demand for services and the increase in web hosting and design, along with low interest rates for mortgage loans. The mortgage interest rates since March 2001 have remained in the range of 6% to 7% though the beginning of September 2001 and it is expected that rates will remain in this range throughout the end of 200. It must be noted that prime interest rates are beyond the Company's control. It is widely acknowledged that low rates encourage consumers to take out mortgages for the purchase of homes and this condition has impacted our business favorably. Aside from lower interest rates, several other factors contributed to the increase in mortgage loans:

(A) The on-line lending division increased their amount of Internet marketing over last year. This change contributed to a lower cost of sales and increased the total audience that viewed their ads.

(B) The online lending division incorporated new Loan Application Management software to automate loan applications. The result was higher productivity per customer sales representative and faster loan approval / decline times.

(C) The online lending division employed a Direct Underwriting System. The division enjoyed quicker approval times due to this system.

Other factors that contributed to the increase in revenue include:

(A) The Company's subsidiary ISP division began operations of BeyondDSL (its wireless Internet service provider) in April 2000. We began to reach a critical mass of customers in this fiscal year's reporting period.

(B) LA Internet integrated an automated billing system into their operations. This allowed us more timely and comprehensive statements.

(C) Our eCommerce division added a number of high-ticket products and sales were better than expected.

(D) Our Direct marketing division began marketing an additional offer our long distance savings product.

Selling, general and administrative expenses for the 2001 fiscal year of \$ 5.92 million were an increase 222% over the \$3.1 million for the previous fiscal year 2000. The Company invested in a number of infrastructure and systems upgrades in order to automate key business functions. The upgrades came at substantial costs but were off set by the increase in revenues.

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

The resulting profit for the twelve-month period ended June 30, 2001 of \$106,908 was a significant increase when compared to the loss of (\$2,596,444) reported for the year ended June 30, 2000. An additional \$686,608 profit generate form the sale of a company investment in stock is outside the norm of revenue sources for the Company and is not representative of on going source of revenue for the Company.

### (3) Fiscal 2000 Compared to Fiscal 1999

Revenues for the twelve-month period ended June 30, 2000 of \$2,332,848 increased approximately 1,658.7% when compared with revenues of \$140,641 in the prior year. This revenue increase is due to the acquisitions made by the Company since the end of its last fiscal year.

General and administrative expenses for the 2000 fiscal year were approximately 378% greater then those of fiscal year 1999 due to the increase of operations of the Company.

The resulting net loss after taxes for the twelve-month period ended June 30, 2000 was \$2,596,444 versus a reported loss for the year ended June 30, 1999 of \$81,836. This loss primarily resulted from the acquisitions and investments made in the fourth quarter of this fiscal year.

### (4) Fiscal 1999 Compared To Fiscal 1998

Revenues for the twelve-month period ended June 30, 1999 of \$140,641 decreased approximately 94% when compared with revenues of \$2,378,000 in the prior year. This revenue decrease in due to the shut down of Company operations and closing of the business on January 18, 1998, and the reopening of the business after the acquisition of the Company by the current control group in November 1998.

Selling, general and administrative expenses for the 1999 fiscal year were approximately 25% those of fiscal year 1998 due to the slowdown of operations of the Company approaching the close of operations as of January 1, 1998 and the subsequent reopening of the company in another industry.

The resulting loss for the twelve-month period ended June 30, 1999 was \$81,836 versus a reported loss for the year ended June 30, 1998 of \$1,160,542. The Company had extraordinary income resulting from the Company extinguishing debt and recognized it as extraordinary income (see Note 7. Extraordinary Item of the footnotes to the attached financials).

### Inflation.

The moderate rate of inflation over the past few years has had an insignificant impact on the Company's sales and results of operations during the period.

### Liquidity and Capital Resources.

Net cash provided by operation of \$60,315 for twelve-month period ended June 30, 2002 was a significant reduction in cash when compared to the cash balance of \$258,019 for the twelve-month period ended June 30, 2001. The company plans for expansion of the wireless Internet interstructure has been put on hold and the Company is currently seeking alternative sources of capital to so the Company can resume adding additional wireless Internet clients. With the

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

current slow down U.S. economy the Companies plan for the expansion of the wireless Internet have been stopped and will not be resumed until additional sources of capital are obtained by the Company.

### Capital Expenditures.

There were several capital expenditures during the 2002 fiscal year, which includes purchase of additional servers and wireless Internet equipment purchased for 2X Inc.

### Net Operating Loss Carry forwards.

For the fiscal year ended June 30, 2002, the Company had net operating loss carry forwards for federal and state purposes of approximately \$2,009,299 and \$1,0372,097 respectively. These carry forwards begin to expire in 2014 and 2004, respectively.

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

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

The Company measured the sensitivity of the current value of cost of funds (Prime Rate plus 1.5%) to changes in the mortgage interest rate (bond market plus 1.5%) that the Company charges on

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

funded loans, which is reflected with changes in interest rates. The difference in the cost of funds versus the rate the Company funded the mortgage loans could have benefited the company because the cost of funds was less the mortgage interest rate, or the Company could loss 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 June 30, 2002 and June 30, 2001:

	Change In Fair Value As of:	
	June 30 2002	June 30 2001
Prime Rate	4.750%	6.750%
Our Cost of Funds	1.500%	1.500%
Total	6.250%	8.250%
Bond Market	4.800%	5.331%
Consumer Cost of Funds	1.500%	1.500%
Total	6.300%	6.831%
Net Impact Benefit (Loss)	0.050%	(1.419)%

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Financial statements as of and for the fiscal years ended June 30, 2002, 2001, and 2000 (restated) are presented in a separate section of this report following Part IV.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

## PART III.

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY.

The names, ages, and respective positions of the directors and executive officers of the Company are set forth below. The Directors named below will serve until the next annual meeting of the Company's stockholders or until their successors are duly elected and have qualified. Directors are elected for a one-year term at the annual stockholders' meeting. Officers will hold their positions at the will of the board of directors, absent any employment agreement, of which none currently exist or are contemplated. There are no arrangements, agreements or understandings between non-management shareholders and management under which non-management shareholders may directly or indirectly participate in or influence the management of the Company's affairs. There are no legal proceedings involving the officers and directors of the Company.

Directors and Executive Officers.

(a) Louis Cherry, President/Chairman of the Board. \*

Mr. Cherry, age 75, was appointed Chairman of the Board, and President of the Company in October of 1999. From 1995 to 1998, he was self-employed as a consultant and food broker. For the period of 1993 to 1994, Mr. Cherry served as Chairman of the Board for two automobile dealerships, University Oldsmobile & Pontiac of Costa

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

Mesa, California, and San Clemente Chrysler, Jeep & Eagle of San Clemente, California. Previously, Mr. Cherry was Chairman of the Board of a national bank and president of an investment firm. Mr. Cherry has attended the University of California at Los Angeles.

(b) Albert R. Reda, Chief Executive Officer/Secretary/Director.

Mr. Reda, age 56, was appointed a Director, Chief Executive Officer, and Secretary of the Company in November 1998. From 1996 to 1998, he was employed with CRT Corporation as Vice President in charge of production for manufacturing frozen food products. For the period of 1994 to 1995, Mr. Reda was self-employed in the financial lending area, buying and selling loans between individuals and institutions. Mr. Reda received his Bachelor of Science Degree from California State University, Long Beach, with a major in engineering.

(c) Wade H. Whitely, Director. \*

Mr. Whitely, age 40, has been self-employed for the past five years as a marketing and design consultant for several mortgage companies, including Marina Mortgage Corp., Owen Mortgage Inc., Community Mortgage Corp. and Western Thrift & Loan. For approximately 2 and one-half years prior to that, he was employed as an acting manager of Northwest Mortgage Corp. Mr. Whitely has also recently designed and implemented e-commerce for Sunglass Central, Optical Brigade, Net2 Loan, and Site- Creator. Mr. Whitely earned his Bachelor of Science degree in finance from Memphis State University. \* Before the end of the first quarter of the Fiscal Year ending June 30, 2003 and prior to the filing of this 10K this Director resigned.

Compliance with Section 16(a) of the Exchange Act.

Section 16(a) of the Securities Exchange Act of 1934 does not apply to the Company since it is a reporting company under Section 15(d) under that Act.

### ITEM 11. EXECUTIVE COMPENSATION.

Summary Compensation Table

Name and principal position	Fiscal Year	Annual compensation			Long-term Compensation			All
		Salary	Bonus	Other annual compensation (1)	Awards Restricted stock award(s)	Securities underlying options/SARs	Payouts LTIP payouts	
		(\$)	(\$)	(\$)	(\$)	(#)	(\$)	com
Louis Cherry, President/ Treasurer	2002	\$120,000	0	0	0	0	0	0
	2001	\$240,000	0	\$ 9,600	0	0	0	0
	2000	\$160,000	0	1,260,000	0	0	0	00
Albert Reda, Chief Executive Officer/	2002	\$120,000	0	0	0	0	0	0
	2001	\$240,000	0	\$ 9,600	0	0	0	0
	2000	\$160,000	0	1,260,000	0	0	0	0

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

Wade Whitely,	2002	\$ 72,000	0	0	0	0	0	0
Executive	2001	96,000	0	0	0	0	0	0
Vice	2000	0	0	0	0	0	0	0
President								

(1) On April 4, 2000, the Company issued 10,000,000 shares of restricted common stock of the Company each to Mr. Cherry and Mr. Reda. These shares are intended to compensate these Directors for their services to the Company for the period of November 1998 through October 1999, during which period neither person received any compensation from the Company. Pursuant to Item 402(b)(2)(iii) of Regulation S-K, these shares are valued at the fair market value at the end of each calendar month during that period when such compensation was earned.

Effective July 2000, Mr. Cherry and Mr. Reda receive car allowances of \$800.00 per month. On August 15, 2001, the Company issued 7,750,000 shares of restricted common stock of the Company each to Mr. Cherry and Mr. Reda (these issuances are not shown in the chart above since they occurred after the end of the 2001 fiscal year). These shares are issued as part of their employment contracts. These shares were valued at \$131,750. Pursuant to Item 402(b)(2)(iii) of Regulation SK, these shares were valued at the fair market value at the time they were issued.

There are no annuity, pension or retirement benefits proposed to be paid to officers, directors, or employees of the Company in the event of retirement at normal retirement date, as there is no existing plan provided for or contributed to by the Company. No remuneration is proposed to be paid in the future directly or indirectly by the Company to any officer or director since there is no existing plan that provides for such payment, including a stock option plan.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth information regarding the beneficial ownership of shares of the Company's common stock as of September 21, 2002, 38,273,603 shares were issued and outstanding, of which 10,027,324 are restricted by (i) all stockholders known to the Company to be beneficial owners of more than 5% of the outstanding Common Stock; (ii) each director; and (iii) all directors and executive officers of the Company individually and as a group (each person has sole voting power and sole dispositive power as to all of the shares shown as beneficially owned by them):

Title of Class	Name and Address of Beneficial Owner	Amount of Beneficial Ownership	Percent of Class
Common Stock	Reda Family Trust (1) 3338 Punta Alta, #1E Laguna Hills, California 92653	2,960,000	7.73%
Common Stock	Cherry Family Trust (2) 29245 Pompano Way Laguna Niguel, California 92677	1,591,609	4.15%



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

Common Stock	Romis Corp. (3), P.O. Box 4321, Mission Viejo, California 92690	1,775,000	4.63%
Common Stock	Albert Reda Corp. (4) 3900 Birch Street, Suite 103, Newport Beach, California 92660	1,775,000	4.63%
Common Stock	Wade Whitely, 3900 Birch Street, Suite 103, Newport Beach, California 92660	0	0.00%
Common Stock	Albert R. Reda, 3900 Birch Street, Suite 103, Newport Beach, California 92660	156,609	0.41%
Common Stock	Shares of all directors and executive officers as a group (3 persons)	8,258,218	21.55%

(1) Reda Family Trust is a trust created by Albert Reda for shares obtained upon the change in control of the Company in November 1998.

(2) Cherry Family Trust is a trust created by Louis Cherry for shares obtained upon the change in control of the Company in November 1998.

(3) Romis Corp. is a corporation controlled by Louis Cherry, which holds shares issued as compensation for services performed by Mr. Cherry for the Company.

(4) Albert Reda Corp. is a corporation controlled by Albert Reda, which holds shares issued as compensation for services performed by Mr. Reda for the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Other than as set forth below, during the past two years, there have not been any transaction that have occurred between the Company and its officers, directors, and five percent or greater shareholders.

(a) On January 1, 2000, Mr. Reda entered into an employment agreement with the Company for the position of Chief Executive Officer. The following are the material terms of this agreement:

(1) A salary of \$180,000.00, payable in semi-monthly installments in accordance with the Company's practices, less normal payroll deductions. On the anniversary date of each year through the fourth year, the salary each is increased by \$1,000 per month.

(2) In addition to this compensation, the Company will periodically review Mr. Reda's performance and services rendered with a view to paying discretionary bonuses based upon above-average or outstanding performance for a prior period. Any such bonuses approved by the Company will be paid to Mr. Reda within 30 days of the grant thereof. The following performance milestones shall justify the particular restricted stock bonuses, to be issued by the company, as set forth below:

(A) At \$2 million in sales, 500,000 shares of common stock.

(B) At \$3 million in sales, 800,000 shares of common stock.

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

- (C) At \$5 million in sales, 1,000,000 shares of common stock.
- (D) At \$8 million in sales, 2,000,000 shares of common stock.
- (E) At \$10 million in sales, 2,500,000 shares of common stock.
- (F) At \$12 million in sales, 3,000,000 shares of restricted common stock.

To date, the Company has paid a total of 7,750,000 shares of common stock as a bonus under this agreement.

(3) In addition to the Salary and bonuses stated above, Mr. Reda will be eligible to participate in a health insurance plan, including dependent coverage, supplied by the Company. Mr. Reda will also be entitled to participate in any and all group life, workers' compensation, health plan or accidental insurance plans which are adopted by the Company for the benefit of executive officers or employees. Mr. Reda will also be entitled to such sick leave and paid holidays and to such other perquisites of employment, as customarily are extended by the Company to executive officers or employees. In addition, Reda will also be entitled to vacation benefits.

(b) On January 1, 2000, Mr. Cherry entered into an employment agreement with the Company for the position of President. The following are the material terms of this agreement:

(1) A salary of \$180,000.00, payable in semi-monthly installments in accordance with the Company's practices, less normal payroll deductions. On the first anniversary date of the agreement, the salary will increase to \$20,000 per month, and \$25,000 per month on the second anniversary date and thereafter.

(2) In addition to this compensation, the Company will periodically review Mr. Cherry's performance and services rendered with a view to paying discretionary bonuses based upon above-average or outstanding performance for a prior period in the same manner as Mr. Reda. To date, the Company has paid a total of 7,750,000 shares of common stock as a bonus under this agreement.

(3) In addition to the Salary and bonuses stated above, Mr. Cherry will be eligible to participate in other benefits as outlined above for Mr. Reda.

PART IV.

ITEM 14. EXHIBITS, REPORTS ON FORM 8-K, AND INDEX TO FINANCIAL STATEMENTS.

Exhibits.

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

Reports on Form 8-K.

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

Index to Financial Statements	Page
Report of Independent Accountant	35

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

Consolidated Balance Sheets as of June 30, 2001 and June 30, 2000	36
Consolidated Statements of Operations for the years ended June 30, 2001, June 30, 2000, and June 30, 1999	37
Consolidated Statement of Stockholders' Equity for the years ended June 30, 2001, June 30, 2000, and June 30, 1999	38
Consolidated Statements of Cash Flows for the years ended June 30, 2001, June 30, 2000, and June 30, 1999	39
Notes to Consolidated Financial Statements	41

### SIGNATURES

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

Internet Business's International, Inc.

Dated: September 27, 2002

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the date indicated.

/s/ Albert R. Reda  
Albert R. Reda  
Chief Executive Officer,  
Secretary, and Director

September 27, 2002

### REPORT OF INDEPENDENT ACCOUNTANT

To the Board of Directors and Stockholders of  
Internet Business's International, Inc.

We have audited the accompanying consolidated balance sheets of Internet Business's International, Inc. and Subsidiaries as of June 30, 2002 and 2001 and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates

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

made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Internet Business's International, Inc. and Subsidiaries as of June 30, 2002 and 2001 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ Henry Schiffer C.P.A., a P.C.  
 Beverly Hills, California  
 September 17, 2002

### INTERNET BUSINESS'S INTERNATIONAL, INC. CONSOLIDATED BALANCE SHEETS JUNE 30, 2002 AND 2001

	June 30 2002	June 30 2001
<b>Assets</b>		
Cash and cash equivalents	\$ 60,315	\$ 258,019
Accounts receivable, net	166,866	200,968
Inventories	57,468	166,307
Mortgage notes held for sale	0	6,929,724
Prepaid expenses and other	90,820	106,092
<b>Total current assets</b>	<b>375,469</b>	<b>7,661,110</b>
Property and equipment, net	1,957,822	1,869,781
Intangible assets, net	1,462,199	2,543,697
Investment in unconsolidated company	2,000,000	0
<b>Total assets</b>	<b>5,795,490</b>	<b>12,074,588</b>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	496,790	559,292
Accrued liabilities	56,624	40,963
Revolving line of credit	0	6,230,678
Current portion of long-term debt	23,960	14,048
Deferred revenues	54,096	56,966
Other current liabilities	0	0
<b>Total current liabilities</b>	<b>631,470</b>	<b>6,901,947</b>
Long-term debt	576,469	1,168,453
<b>Total liabilities</b>	<b>1,207,939</b>	<b>8,070,400</b>
<b>Stockholders' equity (deficit):</b>		
Preferred stock, par value \$100.00 per share; 1,000,000 shares authorized; 0		

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

and 0 issued and outstanding at June 30, 2002 and 2001, respectively.

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 an S8 for 10,000,000 leaves a balance of 38,273,603 and 267,236,029

shares issued and outstanding at June 30, 2002 and 2001, respectively

Additional paid-in capital

Accumulated deficit

Total stockholders' equity

Total liabilities and stockholders' equity

0	0
382,736	2,672,360
6,214,114	3,669,490
(2,009,299)	(2,337,662)

4,587,551 4,004,188

5,795,490 12,074,588

The accompanying notes are an integral part of these financial statements

INTERNET BUSINESS'S INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000

	June 30 2002	June 30 2001	June 30 2000
Revenues	\$ 5,895,586	\$ 7,206,667	\$2,332,848
Costs and expenses:			
Cost of revenues	37,648	165,325	1,012,340
Selling, general and administration	5,240,070	6,063,590	3,193,751
Depreciation and amortization	2,050,059	870,844	791,426
Total costs and expenses	7,327,777	7,099,759	4,995,517
Loss from operations	(1,432,191)	106,908	(2,664,669)
Other income (expense)	1,005,970	686,609	44,157
Income (loss) before income taxes and minority interest	(426,221)	793,517	(2,620,512)
Income taxes (benefit)	0	0	8,800
(Loss) income before minority interest	(426,221)	793,517	(2,629,312)
Minority interest in loss of subsidiaries	0	0	(32,868)
Net income (loss)	(426,221)	793,517	(2,596,444)
Net loss (income) per common share	(.01)	nil	nil
Weighted average number of common shares Outstanding	29,106,936	250,907,333	189,571,337

The accompanying notes are an integral part of these financial statements

INTERNET BUSINESS'S INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000

June 30 June 30 June 30

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

	2002	2001	2000
Preferred stock:			
Balance, beginning of year	\$ 0	\$ 0	\$2,390,000
Preferred stock issued	0	0	0
Balance, end of year	0	0	2,390,000
Common stock:			
Balance, beginning of year	2,672,360	2,211,151	1,773,030
Common stock issued	155,000	461,209	438,121
Stock reverse 1 for 10	(2,544,624)	0	0
Common stock issued (post reverse)	100,000	0	0
Balance, end of year	382,736	2,672,360	2,211,151
Additional paid-in capital:			
Balance, beginning of year	3,669,490	3,669,490	356,930
Common stock issued	0	0	3,312,560
Stock reverse	2,544,624	0	0
Balance, end of year	6,214,114	3,669,490	3,669,490
Retained earnings (deficit):			
Balance, beginning of year	(2,337,662)	(3,131,178)	(534,734)
Disposing of subsidiaries, net	754,584	0	0
Net (loss) income for the year	(426,221)	793,516	(2,596,444)
Balance, end of year	(2,009,299)	(2,337,662)	(3,131,178)
Total stockholders' equity	4,587,551	4,004,188	5,139,463

The accompanying notes are an integral part of these financial statements

INTERNET BUSINESS'S INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000

	June 30 2002	June 30 2001	June 30
Cash Flows From Operating Activities:			
Net (loss) income	\$ (426,221)	\$ 793,516	\$ (2,596,444)
Adjustment to reconcile net (loss) income to net cash used by operating activities:			
Depreciation and amortization	732,706	870,844	830,736
Reserve for loss on accounts and notes Receivable	0	119,372	150,000
Reserve for loss on mortgage loans Receivable	0	100,000	100,000
Minority interest	0	0	(32,868)
Changes in operating assets and liabilities:			
Accounts receivable	(166,866)	(200,968)	(148,813)
Inventories	(57,468)	(166,307)	0
Mortgage loans receivable net	0	(699,064)	82,259
Prepaid expenses and other	90,820	106,092	271,900
Accounts payable	496,790	559,292	(278,617)
Accrued liabilities	56,624	40,963	48,900
Deferred revenues	54,096	56,966	247,090
Other current liabilities	(23,960)	(14,048)	(1,800)

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

Net cash used in operating activities	756,521	1,566,658	(1,327,657)
Cash Flows From Investing Activities:			
Purchases of property and equipment	(88,041)	(1,713,601)	(755,952)
Businesses sale or purchase transactions, net of cash paid	997,774	(26,250)	(104,865)
Purchases of intangible assets	0	(85,506)	(286,372)
Net cash used in investing activities	909,733	(1,825,357)	(1,147,189)
Cash Flows From Financing Activities:			
Net repayments under revolving line of Credits	0	(125,116)	(89,437)
Repayment of short-term borrowings	0	0	0
Net issuance of long-term debt	0	964,792	(61,887)
Repayment of notes payable	(591,984)	(709,869)	(181,832)
Collection of notes receivable	0	654,009	1,080,991
Investment by minority interest	0	0	27,000
Preferred stock	0	(2,390,000)	0
Common stock/ issuance-reverse net	(1,271,974)	461,209	3,279,397
Net cash provided by financing activities	(1,863,958)	(1,144,975)	4,054,232
Net increase (decrease) in cash	(197,704)	(1,403,674)	1,579,386
Cash, beginning of year	258,019	1,661,693	82,577
Cash, end of year	60,315	258,019	1,661,963
Interest paid	0	142,406	86,611
Acquisition of Businesses:			
Fair value of:			
Assets acquired	0	31,250	4,640,167
Liabilities assumed	0	0	(4,064,018)
Stock issued	0	(5,000)	(471,284)
Net cash paid for acquisitions	0	26,250	104,865
Other Income			
Disposition of Business			
Sale of Atlas Capital Corporation			
Atlas Capital Corporation purchase price	30,000		
Purchase of Atlas equipment	(25,000)		
Net Income	5,000		
Sale of Assets of Global To Ace Optics			
Purchase of Equipment	246,000		
Due Affiliates from Payment	(246,000)		
Net Income	0		
Sale of Ace Optics.			
Ace Optics purchase price.	2,000,000		
Due from Affiliates Credit	(583,507)		
Net Income	1,416,493		
Other offset			

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

Guarantee Capital Closing	(418,719)
Other income net	3,196
Total	1,005,970
Retained Earnings Adjustments	
Atlas Capital Corporation	662,635
Global Buying Group	51,796
Ace Optics	40,153
Net adjustment	754,584

The accompanying notes are an integral part of these financial statements

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

#### 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 announce it's first e-commerce site and was engaged in the development, operation and marketing of a number of commercial The Company currently has operates two reporting divisions made up of subsidiaries and or divisions of the Company. The Company had three division to fiscal year end of June 2002 which were as follows: Lending on Line (which includes real estate loans and equipment leasing), this division ceased operations in June of 2002, 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), and Direct Marketing (which includes the direct marketing of long distance phone services, computers with Internet access, wireless high speed Internet access and bandwidth), and Internet web design hosting). The Company has 4 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 Global GPP subsidiary



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

that the Company owned 80% of, during the time it operated. From March of 2000 to March of 2001, at which time Global GPP ceased operations. The financial information were included in the E Commerce section, of the Companies financials, until the sale of Ace Optics in the fourth quarter of this fiscal year ended June 30, 2002, and that information is now included in the Other Income along with the Companies 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 liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowances doubtful accounts 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, and 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

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

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

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

### Property and Equipment

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

### Intangible Assets

Intangible assets consist primarily of acquired customer bases, long-term marketing agreements, goodwill, and other items. Customer bases acquired directly are valued at cost, which approximates fair value at the time of purchase. When material intangible assets, such as customer bases and goodwill are acquired in conjunction with the purchase of a company, 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 issues 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

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 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 to the Company \$3,382,560.

No additional paid in capital occurred during the fiscal year ending June 30, 2002.

### Revenue Recognition

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

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

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 provided as part of the company's marketing initiative and equipment fees. Broadband access revenues consist of fees charged for high-speed, high-capacity access services including DSL, fixed wireless, and dedicated circuit services, installation, termination fees and fees for equipment. Web hosting revenues consist of fees earned by leasing server space and providing web services to companies and individuals wishing to present a web or e-commerce presence. Advertising, content and electronic commerce revenues are recorded as earned.

For lending on line, revenue principally represents closed-loan fees paid by Lenders that closed a loan for a consumer that originated through our Websites, for example, www.gcapgp.com. Closed-loan fees are recognized at the time the lender reports the closed loan to us. This 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 - Fees are earned from products and or services are sold are only 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

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

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

### 3. Business Combinations

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

In 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 it self 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 that it 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.

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

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 the 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 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 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 owns a business-to-business website, equipment and its strategic agreements with IBM Hungary to market business-to-business services in Eastern Europe.

In February 2000, the Company acquired the assets and assumed certain liabilities of Direct Communications, Inc., a wireless communications company. In addition to assuming certain liabilities, the Company paid cash of \$80,000 and issued 30,000 shares of restricted company stock at 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,) 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

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

	June 30 2002	June 30 2001
Accounts receivable:		
Accounts receivable	\$ 292,747	\$ 396,977
Less: allowance for doubtful accounts	(125,881)	(196,009)
Accounts receivable, net	166,866	200,968
Mortgage loans held for sale:		
Mortgage loans held for sale	0	7,049,096
Less: allowance for loan losses	0	(119,372)
Mortgage loans held for sale, net	0	6,929,724
Property and equipment:		
Office furniture and equipment	47,999	47,155
Machinery and computer equipment	3,136,393	2,239,781
Leasehold improvements	0	1,726
Less: accumulated depreciation	(1,226,570)	(418,881)
Property and equipment, net	1,957,822	1,869,781
Intangible assets:		
Capitalized software costs, including websites	1,270,156	1,270,156
Subscriber member bases	1,148,307	1,302,118
Others, including customer lists, existing technology, trade names	423,386	423,386
Less: accumulated amortization	(1,379,650)	(451,963)
Intangible assets, net	1,462,199	2,543,697

5. Revolving Lines of Credit

In January 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.

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

On March of 2001, the Company entered into a Master Repurchase Agreement that provides the Company with a warehouse facility through Imperial Warehouse Lending Group ("Imperial"). The Imperial line provides the Company with an open warehouse credit line (as set forth by Imperial) for the Company's mortgage originations only. Under the terms of the agreement, the Company must repay the funded amount within 30 days of the date the funds were disbursed with interest at the Prime Rate plus 1.0%. If the funds are not repaid within 30 days, the interest rate increases to Prime Rate plus 3.0% until repaid, and Imperial reserves the right to sell the loan and any shortfall remains the liability of the Company. The Imperial line is secured by the mortgage loans funded with the proceeds of such borrowings. The Imperial line does not have a stated expiration date but is terminable by either party upon written notice. 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
June 30, 2001	6,75%	7.75%	7.75%	0
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

\* Imperial line not in use after June 2001

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

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 require the Company to maintain certain financial ratios and adhere to specific non-financial requirements. At June 30, 2002, the company was in compliance with the various covenants contained in the above agreements.

### 6. Long-Term Debt

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

Long-term debt at June 30, 2002 consists of the following:

	Current Portion	Long-term	Total
Notes payable to secured by certain Company assets, requiring monthly payments of \$8,442 including interest various interest rates and due dates.	\$ 23,960	\$ 520,750	\$ 496,790

During the fiscal year certain real estate loans defaulted. The Companies 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 Companies E&O Insurance carriers. and until the claims are either denied or paid the company lists these debts as long-term debt. These notes total \$844,933. Effective September 1, 2001 the Company sold the subsidiary Atlas Capital and these liabilities are included in the sale.

### 7. Extraordinary Item

The California Code of Civil Procedure Section 337 states; "Within 4 years (four), an action 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 then 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

Before the end of the fiscal year the following occurred:

Stock Reverse; In May of 2002 a 1 share for 10 shares reverse became effective. This was the first part of a Securities Purchase Agreement



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

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 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 of 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 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

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, 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

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

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 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 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 years ended June 30, 2002 and 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):

	June 30 2002	June 30 2001
Current income tax expense:		
Federal	\$ 0	\$ 269,795
State	0	0
	0	269,795
Deferred income tax expense:		
Federal	0	0
State	0	0

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

0 0  
0 0

Amounts for deferred income tax assets and liabilities as follows:

Assets	\$	0	\$	269,795
Valuation allowance		0		(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 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 the Company moved several of its offices during the e current fiscal year ended. 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 June 30, 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	\$29,412
West Coast Headquarters	3900 Birch Street, Suite 103, Newport Beach Ca. 92660	\$2100 per month ending 3-03 total	\$18,900
International Headquarters	3 Boicho Voivoda str., 1024 Sofia, Bulgaria (monthly)		
2X Inc.	550 Carson Plaza Drive Suite 127, Carson. Ca. 90746	\$2250 per month ending 12-04 total	\$40,500
	725 Main St. Suite 12, Woodland, Ca. 95695	\$1270 per month ending 11-03 total	\$19,050
	4634 S. Maryland Pkwy, Suite 107, Las Vegas, Nev. 89119		

Several of these locations house more than one subsidiary.

The commitment for the Company based upon the aforementioned leases for the remaining quarters of this fiscal year is \$107,862.

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.

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

### 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") provider. Such determination was based on the level at which executive management reviews the results of operations in order to make decisions regarding performance assessment and resource allocation.

Full service Internet service provider serves customers requiring Internet access in the western United States through dial-up, and high-speed wireless; web hosting and web design. Mortgage banking business includes online mortgage loan origination, processing, servicing and resales, (which ceased operations in June 2002). 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:

Fiscal Year Ended	June 30 2002	June 30 2001
Full-service ISP		
Net sales	.\$ 3,437,011	\$ 4,912,285
Operating income	290,448	2,037,932
Mortgage loan originations held for resale		
Net sales	1,845,991	1,073,147
Operating income	17,358	(83,571)
Marketing (B-to-b/c)		
Net sales	9,973	495,251
Operating income	(372,019)	(825,858)
Other		
Net income	602,611	725,984
Unallocated expense	(362,008)	(334,986)
Total		
Net sales	5,895,586	7,206,667
Operating income	(426,221)	793,517

### 12. Other Events

#### 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 that the record date of July 17, 2002 for the shares

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

holders to receive the dividend. On July 18, 2002 the Company announce the date of distributions to be August 30, 2002. By September 15, the Transfer agent was work with DTC to complete the issuance of the divided CRT Corp. restricted to its shareholders.

### 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 of 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 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 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 NASDQ 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 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 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

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

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 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.

### 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 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

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

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 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.

### EXHIBIT INDEX

Number	Description
2.1	Agreement and Plan of Merger between the Company and Internet Business's International, Inc., a Delaware corporation, dated July 1, 1999 (incorporated by reference to Exhibit 2 to the Form 8-K/A filed on November 22, 1999)
2.2	Agreement and Plan of Merger and Share Exchange among the Company, Return Assured Incorporated, and IBUI Acquisition Corporation, dated June 4, 2001
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to 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 to 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 to 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 to Form S-8 filed on October 8, 1999)
4.2	Consulting Agreement between the Company and Mark Crist, dated October 5, 1999 (incorporated by reference to Exhibit 4.2 to Form S-8 filed on October 8, 1999)
10.1	Purchase Agreement (LA Internet) between the Company and Iron Horse Holdings, Incorporated, dated June 10, 1999 (incorporated by reference to Exhibit 10.2 to the Form 10-Q filed on December 1, 1999).
10.2	Purchase Agreement between the Company and the Stockholders of MBM Capital Group Inc., dated July 1, 1999 (incorporated by reference to Exhibit 10.3 to the Form 10-Q filed on December 1, 1999).

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

- 10.3 Acquisition Agreement (Net 2 Loan) between the Company and Lifestyle Mortgage Partners, dated September 15, 1999 (incorporated by reference to Exhibit 10.4 to the Form 10-Q filed on February 22, 2000).
- 10.4 Purchase Agreement (license) between the Company and Stockholders of California Land & Home Sale, Inc., dated October 1, 1999 (incorporated by reference to Exhibit 10.5 to the Form 10-Q filed on February 22, 2000).
- 10.5 Acquisition Agreement (Optical Brigade) between the Company and Wade Whitley, dated November 1, 1999 (incorporated by reference to Exhibit 10.6 to the Form 10-Q filed on February 22, 2000).
- 10.6 Employment Agreement between the Company and Al Reda, dated January 1, 2000 (see below).
- 10.7 Employment Agreement between the Company and Louis Charry, dated January 1, 2000 (see below).
- 10.8 Agreement for Acquisition between the Company and Direct Communications, Inc., dated February 25, 2000 (incorporated by reference to Exhibit 10.6 of the Form 10-Q filed on May 22, 2000).
- 10.9 Agreement between the Company and Internet 2xtreme, dated March 6, 2000 (incorporated by reference to Exhibit 10.7 of the Form 10-Q filed on May 22, 2000).
- 10.10 Agreement between the Company, Roanoke Technology Corp., and Global GPP Corp., dated March 21, 2000 (incorporated by reference to Exhibit 10.8 of the Form 10-Q filed on May 22, 2000).
- 10.11 Agreement between GPP Hungary Kft and Haitec Magyarorazagi Kft, dated March 30, 2000 (incorporated by reference to Exhibit 10.9 of the Form 10-Q filed on May 22, 2000).
- 10.12 Stock Purchase Agreement between the Company and Atlas Capital Corporation, dated April 1, 2000 (incorporated by reference to Exhibit 10.10 to the Form 10-K filed on September 27, 2000).
- 10.13 Stock Purchase Agreement between the Company and Ronald Friedman, Robert Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust, dated July 28, 2000 (incorporated by reference to Exhibit 10.11 of the Form 10-Q filed on November 16, 2000).
- 10.14 Stock Sales Agreement between the Company and a buyer dated July 28, 2000 (incorporated by reference to Exhibit 10.12 of the Form 10-Q filed on November 16, 2000).
- 10.15 Stock Purchase Agreement between the Company, International Business Company, Dennis B. Ginther, Clifford J. Roebuck, Jadwiga L. Ginther, and Bogumila E. Basu , dated August 19, 2000 (incorporated by reference to Exhibit 10.13 of the Form 10-Q filed on November 16, 2000).
- 10.16 Stock Purchase Agreement between the Company, Sonic Auction.com, Inc., and Brian Pruett, dated October 5, 2000



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

(incorporated by reference to Exhibit 10.14 of the Form 10-Q filed on February 15, 2001).

- 10.17 Stock Purchase Agreement between the Company, Auction-Sales.Com, Inc., and Zahid Rafiq, dated October 19, 2000 (incorporated by reference to Exhibit 10.15 of the Form 10-Q filed on February 15, 2001).
- 21 Subsidiaries of the Company (incorporated by reference to Exhibit 21 of the Form 10-Q filed on February 15, 2001).
- 99.1 Corporate adoption of the Governance and Accounting Under the Sarbanes-Oxley Act of 2002 (see below).