

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

INTERNET BUSINESS INTERNATIONAL INC  
Form 10-K  
October 01, 2001

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

FORM 10-K

(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, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM  
\_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 33-43621

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

Nevada  
(State or jurisdiction of incorporation  
or organization)

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

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

89119  
(Zip Code)

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

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

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

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

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 Registrant'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 registrant as of September 13, 2001: Common  
Stock, par value \$0.001 per share -- \$2,827,360. As of September  
13, 2001, the registrant had 282,736,029 shares of common stock  
issued and outstanding.

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PART I.	

### ITEM 1. BUSINESS.

#### Introduction.

Internet Business's International, Inc. ("Registrant") is a broad based Internet company that provides goods and services over the Internet to businesses and consumers through four operating divisions: (1) ISP (Internet Service Provider); (2) On-line Lending; (3) Direct Marketing; and (4) eCommerce.

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 Registrant's vision is to build a world-class on-line enterprise that is many times the sum of its parts.

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

### Current Operations.

The Registrant currently operates four 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.)
- (3) Direct Marketing (which includes the direct marketing of long distance phone services, computers with Internet access, wireless high speed Internet access and bandwidth.)
- (4) eCommerce (which includes auction sites, B2C and B2B eCommerce, and reverse auction sites for Europe and the United States), The Registrant has 7 offices in the US and 1 in Europe and more than 60 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) LA Internet ([www.lainternet.com](http://www.lainternet.com)) Los Angeles, California

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

Revenue is generated though monthly fess charged for dial-up Internet access and web site hosting. LA Internet currently has 10 employees.

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(2) LA Internet Design ([www.lainternetdesign.com](http://www.lainternetdesign.com)) Los Angeles, California; Sofia, Bulgaria

LA Internet Design (an operating division of LA Internet) 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, LA Internet 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 LA Internet.

Revenue is generated though hourly or fixed price fees for professional services, and though the retail sale of Site Creator. LA Internet Design currently has 5 employees.

(3) BeyondDSL ([www.beyondsl.com](http://www.beyondsl.com)) Las Vegas, Nevada

BeyondDSL (an operating division of LA Internet) operates a RF (Radio Frequency) type wireless ISP in several major west coast geographies: Las Vegas, Nevada; Moreno Valley, California; and Woodland, California. BeyondDSL 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. BeyondDSL currently has 10 employees.

(4) Internet 2xtreme ([www.2xtreme.net](http://www.2xtreme.net)) Woodland, California

Internet 2xtreme (an operating division of LA Internet) is a full service dial-up ISP and web site hosting business operating in Woodland, California. Internet 2xtreme re-sells LA Internet's dial-up services and BeyondDSL's wireless ISP services to consumers and business in the Woodland area. This company also provides hosting and co-location (server farm) services to individuals and businesses. Internet 2xtreme maintains its own hosting and co-location facilities in Woodland, California.

Revenue is generated though monthly fees charged for dial-up and wireless Internet access and web site hosting. Internet 2xtreme currently has 9 employees.

(b) On-line Lending Division

(1) Guarantee Capital Group ([www.net2loan.net](http://www.net2loan.net)) Irvine, California

Guarantee Capital Group\* (a wholly owned subsidiary of the Registrant) 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 site ([www.net2loan.net](http://www.net2loan.net)).

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

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Revenue is 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 currently has 23 employees.

\* In the first quarter of the current fiscal year ending June 30, 2002, management decided to expand the mortgage banking operation into states other than California. Management decided at that time to increase the company's funding line as well. These two decisions precipitated the sale of the former mortgage group - Atlas Capital and the creation of Guarantee Capital Group.

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

Discount On-line Leasing (an operating division of the Registrant) 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 through a number of finance companies that specialize in capital equipment funding.

Revenue is generated through 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 Registrant) direct markets goods and services to individuals and businesses. Types of 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.

Revenue is generated by commissions paid on orders processed. 1st2 Market currently has 3 employees.

\* During the first quarter of the current fiscal year ending June 30, 2002, it was decided that the current corporation Allstates Communications, Inc. did not fit the Registrant's current marketing plans; therefore it was decided to close Allstates Communications and begin the new corporation 1st2 Market. The new corporation started operations in September 1, 2001. The new corporation will not market cellular phones; it will only market the Registrant's products and services.

(d) eCommerce Division

The Registrant operates a several e-retail or ecommerce web sites serving several different markets:

(1) Iauction ([www.iauction.com](http://www.iauction.com)) Hornlake, Mississippi

Iauction.com (an operating division of the Registrant) is an on-line auction site. The site is a marketplace that allows

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consumers and business to place their goods or services up for sale by auction. The registration and interface is very much like other popular Internet auction sites such as ebay.com.

The site and the programming are proprietary to iauction.com. The site features an integrated accounting program that allows iauction.com to view updated information about revenues generated by the site from outside users in real-time. Iauction.com has also implemented programs that allow the site to be continuously updated with minimum cost and administrative overhead. This company markets the auction site throughout the Internet and leverages other Registrant sites.

Revenue is generated from transaction and listing fees charged to buyers and sellers of products and services.

(2) Global Construction Buying Group ([www.globalbuyinggroup.com](http://www.globalbuyinggroup.com))  
Hornlake, Mississippi

Global Construction Buying Group (a wholly owned subsidiary of the Registrant) is a B2B (business to business) reverse auction web site. The web site uses a proprietary reverse auction platform, developed by Global Construction Buying Group. The site allows a business (purchasing party) the opportunity to place RFPs (request for pricing) on-line. Interested vendors or suppliers can bid on the RFP. The purchasing party has the opportunity to select the lowest bid from all vendors. Global Construction Buying Group has offices in Europe and the United States. The company has an agreement with IBM in Europe to market the reverse auction program.

Revenue is generated from transaction and listing fees charged to buyers and sellers of products and services.

(3) BC Lenders ([www.bclenders.net](http://www.bclenders.net)) Hornlake, Mississippi

BC Lenders (short for "bruised credit") is a reference and referral site for consumers and business that have difficulty being accepted by conventional financing groups because of a poor credit history. The borrowers fill out an application and select a lender from the list to submit the application to.

Revenue is generated through commissions paid by lenders for referring accepted applicants to their businesses.

(4) Ace Optics ([www.aceoptics.com](http://www.aceoptics.com)) Hornlake, Mississippi

Ace Optics (an operating division of the Registrant) markets and retails popular brands of visual aids and designer sunglasses over the Internet. AceOptics sells to consumers over its web site [www.aceoptics.com](http://www.aceoptics.com).

Revenue is generated by retail sales of products.

(5) Sport Stores ([www.sport-stores.com](http://www.sport-stores.com)) Hornlake, Mississippi

Sport Stores (an operating division of the Registrant), markets and retails popular brands of sports gear and sports ware over the Internet. Sport Stores sells to consumers over its web site [www.sport-stores.com](http://www.sport-stores.com). Revenue is generated by retail sales of product.

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The entire eCommerce division shares 3 employees, the also rely on technical services from LA Internet and LA Internet Design.

Corporate

Newport Beach, CA

The Registrant maintains an administration and support group in Newport Beach, California. The group supports the operating divisions and administrates the public filings and financial statements. This office has 5 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 Registrant's business and on the trading price of its stock.

The majority of our revenues come from on-line loans. The Registrant competes with many Internet, and many non-Internet companies that provide mortgages or equipment leasing. The Registrant also competes with many other companies that offer the same type of Internet-only services we offer - such as ISP services. The Registrant competes with many eCommerce on-line vendors of products that sell similar products that are offered by its eCommerce division. The Registrant competes with its direct marketing division with many other similar direct marketing companies. As the Registrant 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 Registrant 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; CNET; Excite; InfoSeek Corporation; Lycos; Microsoft Corporation (msn.com); and Netscape Communications Corporation (netcenter.com). In the past several months, there have been a number of significant acquisitions and strategic plans announced among and between these companies. These include: The Walt Disney Registrant acquiring a significant interest in InfoSeek; AOL acquiring Time Warner and Netscape; @Home Networks, Inc., a provider of high speed internet access serving the cable television infrastructure and the largest shareholder of which is AT&T, acquiring Media One and Excite. There has also been a contraction in the market place due to recent failures of many dot com companies. These failures also reduced the availability of expansion capital for many Internet companies

The effect of completed and pending acquisitions on the Registrant cannot be predicted with certainty, but all of these competitors are aligned with companies that are significantly larger or better established than the Registrant. As a result, each of them will have access to significantly greater financial, marketing and, in certain cases, technical resources than the Registrant.

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These and other competitors are expected to continue to make substantial marketing expenditures to promote their on-line properties. The Registrant 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 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
ISP Dialup	LA Internet	ixpres.com earthlink.com
Wireless Web design	BeyonDSL LA Internet Design	landwaves.net ixpres.com
On-line Lending Mortgages	Guarantee Capital	homeloan.com dietch.com
Leasing	Discount On-line Leasing	leaseforce.com
Direct Marketing	1st2 Market	directoneusa.com
eCommerce Auctions	iauction.com	bidbay.com, ubid.com, ebay.com
Reverse Auction Sunglasses	Global Construction aceoptics.com sun	sorcitey.com sunglasshut.com

The Registrant 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 Registrant 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 Registrant's business.



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### Strategic Alliances and Agreements.

The recent alliances of the Registrant have increased the companies and its subsidiaries' ability to market its products and services; these alliances are as follows;

#### (a) Network Solutions.

The Registrant has entered into an agreement with Network Solutions to co-market "Site Creator", Network Solutions' web based Internet site development program to new clients that are obtained by the Registrant. The Registrant will receive a commission on each sale of Site Creator as well as the opportunity to host Site Creator clients with LA Internet.

#### (b) IBM.

The Registrant has entered into an alliance with IBM and IBM Solution Providers in Europe to offer the industry specific reverse auction program of the Global Construction Buying Group, Inc.

### Marketing Plans.

The Registrant 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 Registrant. The Registrant has used Print, Radio, and Television to inform the public and consumer of these products and services. Accordingly, the Registrant may face increased pricing pressure for the purchase of advertisement space. The Registrant 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 Registrant regards its copyrights, trademarks, trade dress, trade secrets, and similar intellectual property as critical to its success. The Registrant 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 Registrant's web sites may not be protected under copyright law. Management cannot guarantee that the steps the Registrant 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

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the Registrant. Management cannot guarantee that it would be able to license such patents on reasonable terms. The Registrant 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 Registrant has infringed such third-party patent rights, the Registrant could incur monetary liability and be prevented from using the rights in the future.

Employees.

As of the date of this filing, the Registrant had over 60 employees. This is a reduction from the same time last year when the company had 85 employees. The reduction of the employees was due to the changes made September 1, 2001 with the mortgage lending division and the direct marketing division. The Registrant'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.

Merger Transaction.

On June 4, 2001, Return Assured Incorporated, IBUI Acquisition Corporation, a wholly owned subsidiary of Return Assured, and the Registrant entered into an Agreement and Plan of Merger and Share Exchange ("Merger Agreement"). The Merger Agreement provides, among other things, for IBUI Acquisition Corporation to be merged with and into the Registrant ("Merger") and for a share exchange between the shareholders of the Registrant and the Return Assured. Under the Merger Agreement, each of the outstanding shares of the Registrant will be converted into the right to receive 0.14 shares of the Return Assured's common stock (Return Assured will adjust the exchange ratio to reflect any reclassification, stock split, stock dividend, reorganization or other similar change with respect to Return Assured common stock or the Registrant common stock occurring before the effective time of the Merger).

In connection with the Merger transaction, Return Assured will conduct a 1:6 reverse split of its common stock. Upon the completion of the transactions contemplated in the Merger Agreement, the Registrant will become a wholly-owned subsidiary of Return Assured and the current shareholders of the Registrant will own approximately 90% of Return Assured. The Merger, a purchase transaction, will be accounted for as a reverse merger with the Registrant as the accounting acquirer.

No fractional merged Return Assured common stock will be issued. Each of the Registrant's shareholder entitled to receive a fractional share of 0.5 or greater shall receive a whole merged company share and each of the Registrant shareholder's who would otherwise be entitled to receive a fractional share of less than 0.5 shall not receive an additional whole share.

Following the adoption of the Merger Agreement and approval of the Merger by the Registrant's stockholders and the satisfaction or waiver of the other conditions to the Merger, IBUI Acquisition Corp. will merge into the Registrant. The Registrant will survive the Merger as a wholly owned subsidiary of Return Assured; the separate existence of IBUI Acquisition Corporation will cease.

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If all conditions to the Merger are satisfied or waived, the Merger will become effective at the time of the filing by the surviving corporation of a duly executed certificate of merger with the Secretary of State of the State of Delaware.

After the effective time of the Merger, Return Assured's transfer agent will mail to each record holder of the Registrant's common stock a letter of transmittal and instructions for surrendering their certificates. Only those holders who properly surrender their certificates in accordance with the instructions will receive certificates representing Return Assured common stock, cash in lieu of any fractional Return Assured common stock and any dividends or distributions to which they are entitled. The surrendered certificates representing shares of the Registrant's common stock will be cancelled. After the effective time of the Merger, each certificate representing shares of the Registrant common stock that has not been surrendered will only represent the right to receive common stock of Return Assured. Following the effective time of the Merger, the Registrant will not register any transfers of the Registrant common stock on its stock transfer books.

If any the Registrant's common stock certificate is lost, stolen or destroyed, an the Registrant stockholder must provide an appropriate affidavit of that fact. Return Assured may require an the Registrant's stockholders to deliver a bond as indemnity against any claim that may be made against Return Assured with respect to any lost, stolen or destroyed certificate.

### Risk Factors.

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

#### (a) Limited Operating History.

The Registrant has only begun operations as an Internet company since January 1, 1999. Therefore, the Registrant 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 Registrant'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 Registrant's competitors; ability to effectively generate revenues through sponsored services and placements on the Registrant'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 Registrant'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 Registrant's sales agents; and the relative price stability for web-based services

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and products, despite competition and other factors that could reduce market prices. The Registrant may not be successful in implementing its growth plan or continuing to operate its business as anticipated.

### (b) Operating Results May Fluctuate.

The Registrant expects to derive the majority of its revenues from a variety of revenue sources, which are difficult to forecast accurately. As noted above, the Registrant 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 Registrant's Internet sites, and the demand for the products and services that the Registrant 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 Registrant 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 Registrant 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 Registrant'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 Registrant will receive fees as well as a portion of transaction revenues received by business that is originated through the Registrant sites. This type of revenue generation exposes the Registrant to potentially significant financial risks, including: the risk that the Registrant fails to obtain the minimum level of revenue required to maintain the operational expenses of the Registrant.

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

The Registrant'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

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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 Registrant 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 Registrant'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 Registrant 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 Registrant 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 Registrant'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 Registrant 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 Registrant could suffer substantial adverse publicity and impairment of its brand and reputation. If the Registrant 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 Registrant must continue to enhance and improve the functionality, features, and content of its web site properties. The Registrant 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 Registrant cannot guarantee that additional revenues from these services will offset this additional expense.

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A key element of its business strategy is the development and introduction of new particular demographic characteristics, and geographic areas. The Registrant 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 Registrant'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 Registrant to promote such properties. If use of the Registrant's web site properties does not continue to grow, its ability to establish other targeted properties would be adversely affected. If the Registrant 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 Registrant'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 Registrant 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 Registrant'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 Registrant may, from time to time, make acquisitions or enter into other forms of business 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 Registrant may not be successful in

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addressing these risks or any other problems encountered in connection with such acquisitions.

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

The Registrant 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 Registrant 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 Registrant 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 Registrant is dependent on third parties for much of its technology and infrastructure. The Registrant's operations are susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins, and similar events. The Registrant 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 Registrant 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.

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 Registrant 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 Registrant 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

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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 Registrant'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 Registrant 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 Registrant 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 Registrant'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 Registrant 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 Registrant for violations of their laws. The Registrant might unintentionally violate such laws. Such laws may be modified, or new laws enacted, in the future. Any such



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developments may have a materially adverse effect on its business, results of operations, and financial condition.

### (i) Liability for the Registrant's Services.

The Registrant 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 Registrant 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 Registrant 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 Registrant is liable for copyright or trademark infringement or other wrongful actions by such third parties through such web sites, or that the Registrant 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 Registrant for losses incurred in detrimental reliance on such information. The Registrant 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 Registrant may also, from time to time, enter into arrangements to offer third-party products and services under the Registrant's brand or via distribution on its properties. While its agreements with these parties would provide that the Registrant would be indemnified against liabilities, such indemnification may not be adequate. The Registrant 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.

As part of its business, the Registrant enters into agreements with businesses, sponsors, content providers, service providers, and merchants under which the Registrant 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 Registrant to additional legal risks and uncertainties, including potential liabilities to consumers of such products and services. These activities expose the Registrant to a number of additional risks and uncertainties, including: potential liabilities for illegal activities that may

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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.

In January of 2001, the Registrant launched IAuction.com, a service that hosts online auctions for a wide variety of goods and services. Auction services expose the Registrant to a number of significant additional risks. For example, the Registrant does not pre-screen the types of goods offered on its auctions, it is aware that certain goods, such as alcohol, tobacco, firearms, adult material and other goods that may be subject to regulation by local, state or federal authorities may be traded on the auction web site. The Registrant might not be able to prevent the unlawful exchange of goods on its service, and may be subject to civil or criminal liability for unlawful activities carried out by users through its service. In addition, while the Registrant takes no responsibility for delivery of payment or goods to any user of its auctions, the Registrant anticipates that users who did not receive the purchase price or the goods that were to have been exchanged may register complaints with the Registrant or seek to hold the Registrant liable. The Registrant also anticipates that it will receive complaints from buyers as to the quality of the goods purchased through its auctions, as well as complaints alleging that comments posted by participants of the service concerning other participants are unfair or defamatory. Any claims or litigation arising from the Registrant's auction activities could be costly. Any negative publicity generated as a result of fraudulent or deceptive conduct by users of these auctions could damage its reputation and diminish the value of its brand name. In addition, the Registrant anticipates that it will receive in the future, communications alleging that certain items sold through its auctions, or text and images posted by users in auction listings, infringe third-party copyrights, trademarks or other intellectual property rights. While its user policies prohibit the sale of goods and posting of materials, which may infringe third-party intellectual property rights, an allegation of infringement may result in costly litigation.

### ITEM 2. PROPERTIES.

The consolidated Registrant has over \$1,800,000 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 Pky, Suite 107  
Las Vegas, Nev. 89119

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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 September 10, 2001)

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

Guarantee Capital Group, a Corp.  
18004 SkyPark Ci. Suite 170,  
Irvine, Ca. 92614

Global Construction Buying Group, Inc.  
1077 Goodman Rd., Hornlake, Mississippi 38654

LA Internet, Inc.  
11500 Olympic Blvd, Suite 441, LA. Ca. 90064  
1059 Court St. Suite 123, Woodland, Ca. 95695  
4634 S. Maryland Pky, Suite 107, Las Vegas, Nev. 89119

Iauction.com Inc.  
1077 Goodman Rd., Hornlake, Mississippi 38637

### ITEM 3. LEGAL PROCEEDINGS.

Other than as set forth below, the Registrant 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 Registrant has been threatened.

The Registrant on March 2, 2001 filed an action in the United States District Court, Central District of California against Ronald Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust (Case Number SA CV 01-268 DOC (Eex)) for rescission of the purchase of the PMCC stock and return of the \$1,006,857. On August 16, 2001 Ronald Friedman, Robert Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust filed an action in the United States District Court, Southern District of New York against the 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 Registrant 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 Registrant's stockholders during the fourth quarter of the fiscal year covered by this report.

PART II.

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

#### Market Information.

The common stock of the Registrant 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

	2000		2001	
	High	Low	High	Low
1st Quarter 9-30	0.16	0.04	0.3125	0.1562
2nd Quarter 12-31	0.35	0.017	0.125	0.0625
3rd Quarter 3-31	2.00	0.0275	0.0781	0.0469
4th Quarter 6-30	0.74	0.20	0.05	0.03

#### Holder of Common Equity

As of September 10, 2001 there were 631 shareholders of record of the Registrant's Common Stock.

#### Dividends

The Registrant has not declared or paid a cash dividend to stockholders since it was organized. The Board of Directors presently intends to retain any earnings to finance Registrant operations and does not expect to authorize cash dividends in the foreseeable future. Any payment of cash dividends in the future will depend upon the Registrant's earnings, capital requirements and other factors.

#### Equity Securities Sold Without Registration.

The Registrant made the following sales of unregistered securities during the fiscal year ended December 31, 2000:

(a) During the quarter ended December 31, 2000, the Registrant 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 Registrant 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 Registrant 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

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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 Registrant 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 Registrant 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 Registrant advised the purchasers of the limitations on resale in the manner contained in paragraph Rule 502(d)2 of this section;

neither the Registrant nor any person acting on its behalf sold the securities by any form of general solicitation or general advertising; and

the company exercised reasonable care to assure that the purchasers of the securities are not underwriters within the meaning of section 2(11) of the Securities Act of 1933 in compliance with Rule 502(d).

### ITEM 6. SELECTED FINANCIAL DATA.

The selected financial data for the years ended June 30, 2001, 2000, 1999, 1998, and 1997, are derived from the audited financial statements of the Registrant and should be read in conjunction with the audited financial statements included herein.

#### Statement of Operations Data: (in thousands)

	Year End June 30				
	2001	2000	1999	1998	1997
Revenues	\$49,500	\$10,169	\$ 141	\$ 2,378	\$7,358
Cost of revenues	42,459	8,849	23	2,248	5,847
Gross profit (loss)	7,041	1,320	118	130	1,511
Sales & distribution exp.	4,090	375	43	525	1,512
General and admin exp.	2,702	2,822	157	366	529
Net operating income (loss)	107	(2,665)	(82)	(1,160)	(530)
Net other income and expense	687	44	2,250	0	0
Net income (loss)	794	(2,596)	2,168	(1,160)	(530)
Per common share net	nil	nil	0.01	nil	nil
Weighted average shares outstanding	250,907	189,580	164,550	158,060	154,763

#### Balance Sheet Data: (in thousands)

	Year End June 30				
	2001	2000	1999	1998	1997
Current assets	7,661	4,826	395	1	711
Fixed assets	4,413	3,459	0	0	800
Total assets	12,074	8,932	4,015	1,102	1,511
Current liabilities	6,902	3,602	30	1,819	1,947
Long-term debt	1,168	204	0	455	677

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Shareholders' equity					
(deficiency)	4,004	5,139	3,985	(2,273)	(1,113)

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

#### Results of Operations.

##### (a) Comparison by Segment

The Registrant is a broadly based Internet company that supports many operating divisions. Taking into consideration the growth of many of our business in the last fiscal year, management has begun to segment the company's businesses into four operating divisions. These are as follows: (1) ISP, (2) On-line Lending, (3) Direct Marketing, (4) eCommerce. The four operating divisions are the level at which executive management reviews the results of operations in order to make decisions regarding performance assessments and resource allocations. Certain general expenses related to advertising and marketing; information systems; and finance and administrative groups are not allocated to the operating segments and are included in the "Other" section of the reconciliation of operating income reported below.

Information on reportable segments is as follows:

	Twelve Months Ended	
	June 30 2001	June 30 2000
Full-service ISP		
Net sales	\$ 4,912,285	\$1,577,971
Operating income	2,037,932	(348,367)
Mortgage loan originations		
Net sales	43,366,519	8,264,071
Operating income	(83,571)	(386,682)
E-Commerce (B2BC)		
Net sales	278,668	47,002
Operating income	(156,187)	(164,341)
Marketing (B2BC)		
Net sales	495,251	160,380
Operating income	(825,858)	(180,986)
Other income		
Net income	447,316	119,666
Operating income	(178,799)	(1,584,293)
Total		
Net sales	49,500,039	10,169,000
Operating income	793,517	(2,596,000)

##### (b) Comparison of Year to Year.

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

Revenues for the twelve-month period ended June 30, 2001 of \$49,500,039 increased approximately 487% when compared with revenues of \$10,169,000 in the prior year. This revenue increase

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is primarily due to the company's increase in mortgage loan originations. Interest rates for mortgage loans since March of 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 2001 - although 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) Our ISP division began operations of BeyonDSL 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.

The gross profit of \$7.041 million for the twelve months ended June 30, 2001 is an increase of 533% when compared to the gross profit for the prior twelve months of \$1.32 million. Profits increased as a result of revenues. Margins increased due to a number of operating efficiencies implemented in the last year and switching key suppliers. Some of the key factors include:

(A) Our On-line Lending division began marketing "bulk" loans to financial institutions. The resulted in higher margins due to a lower cost of sale per loan.

(B) Our ISP division switched backbone suppliers and reduced our bandwidth costs.

(C) Our ISP division integrated an automated billing system into their operations. This allowed us to bill more accurately.

(D) Our eCommerce division increased the number of high-ticket products they retailed. We realized higher margins on these sales.

Selling, general and administrative expenses for the 2001 fiscal year of \$5,921,184 were an increase of approximately 190% over the \$3,107,140 for the previous fiscal year 2000. The Registrant

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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.

The resulting profit for the twelve-month period ended June 30, 2001 of \$793,516 was an increase of approximately 130% when compared to the loss of \$2,596,444 reported for the year ended June 30, 2000.

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

Revenues for the twelve-month period ended June 30, 2000 of \$10,169,000 increased approximately 720% when compared with revenues of \$140,641 in the prior year. This revenue increase is due to the acquisitions made by the Registrant since the end of its last fiscal year.

The gross profit margin of 13% for the twelve months ended June 30, 2000 is a significant decrease from the gross margin of 84% reported for twelve months ended June 30, 1999. Current year margins in the past twelve months reflect the reopening of the business as an Internet company after November 1998.

Selling general and administrative expenses for the 2000 fiscal year of \$3,107,140 were approximately 378% greater than those of fiscal year 1999 of \$199,753 due to the increase of operations of the Registrant.

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.

### (3) 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 is due to the shut down of Registrant operations and closing of the business on January 18, 1998, and the reopening of the business after the acquisition of the Registrant by the current control group in November 1998.

The gross profit margin of 84% for the twelve months ended June 30, 1999 is a significant increase from the gross margin of 1.3% reported for twelve months ended June 30, 1998. Current year margins in the past twelve months reflect the reopening of the business as an Internet company after 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 Registrant 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.

Inflation.

The moderate rate of inflation over the past few years has had an insignificant impact on the Registrant's sales and results



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of operations during the period.

### Liquidity and Capital Resources.

Net cash provided by operation of \$258,019 for twelve-month period ended June 30, 2001 was a significant reduction in cash when compared to the cash balance of \$1,661,693 for the twelve-month period ended June 30, 2000. The company is currently cash flow positive and is investing currently over \$40,000 a week with expanding its wireless Internet interstructure adding additional clients. If the U.S. economy slows down significantly the plans for the expansion of the wireless Internet will impacted and possibly stopped.

### Capital Expenditures.

There were several capital expenditures during the 2001 fiscal year, which includes purchase of additional servers and wireless Internet equipment purchased for LA Internet.

### Net Operating Loss Carry forwards.

For the fiscal year ended June 30, 2000, the Registrant had net operating loss carry forwards for federal and state purposes of approximately \$2,596,444 and \$1,340,297 respectively. These carry forwards begin to expire in 2012 and 2002, 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 Registrant's business strategies, continued growth in the Registrant's markets, projections, and anticipated trends in the Registrant's business and the industry in which it operates. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. These forward-looking statements are based largely on the Registrant's expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Registrant's control. The Registrant cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward looking statements, including, among others, the following: reduced or lack of increase in demand for the Registrant's products, competitive pricing pressures, changes in the market price of ingredients used in the Registrant's products and the level of expenses incurred in the Registrant's operations. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained herein will in fact transpire or prove to be accurate. The Registrant disclaims any intent or obligation to update "forward looking statements."

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

Not Applicable.

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

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Financial statements as of and for the fiscal years ended June 30, 2001, 2000, and 1999 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 REGISTRANT.

The names, ages, and respective positions of the directors and executive officers of the Registrant are set forth below. The Directors named below will serve until the next annual meeting of the Registrant'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 Registrant's affairs. There are no legal proceedings involving the officers and directors of the Registrant.

#### Directors and Executive Officers.

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

Mr. Cherry, age 74, was appointed Chairman of the Board, and President of the Registrant 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 Mesa, California, and San Clemente Chrysler, Jeep & Eagle of San Clemente, California. Previously, Mr. Cherry was Chariman 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 55, was appointed a Director, Chief Executive Officer, and Secretary of the Registrant 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, III, Director.

Mr. Whitely, age 39, has been self-employed for the past five years as a marketing and design consultant for several mortgage companies, including Marina Mortgage Corp., Ocwen 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.

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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.

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

Section 16(a) of the Securities Exchange Act of 1934 does not apply to the Registrant 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		Other Annual compensation (1)	Awards	Long-term compensation		All other compensation
		Salary	Bonus		Restrict stock award	Securities under lying options SARs	LTIP payouts	
		(\$)	(\$)	(\$)	(\$)	(#)	(\$)	(\$)
Louis Cherry, President/ Treasurer	2001	\$240,000	0	\$ 9,600	0	0	0	0
	2000	\$160,000	0	1,260,000	0	0	0	0
	1999	0	0	0	0	0	0	0
Albert Reda, Chief Executive Officer/ Secretary	2001	\$240,000	0	\$ 9,600	0	0	0	0
	2000	\$160,000	0	1,260,000	0	0	0	0
	1999	0	0	0	0	0	0	0
Wade Whitely, III, Executive Vice President	2001	\$ 96,000	0	0	0	0	0	0
	2000	0	0	0	0	0	0	0
	1999	0	0	0	0	0	0	0

(1) On April 4, 2000, the Registrant issued 10,000,000 shares of restricted common stock of the Registrant each to Mr. Cherry and Mr. Reda. These shares are intended to compensate these Directors for their services to the Registrant for the period of November 1998 through October 1999, during which period neither person received any compensation from the Registrant. 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

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allowances of \$800.00 per month. On August 15, 2001, the Registrant issued 7,750,000 shares of restricted common stock of the Registrant 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 Registrant in the event of retirement at normal retirement date, as there is no existing plan provided for or contributed to by the Registrant.

No remuneration is proposed to be paid in the future directly or indirectly by the Registrant 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 Registrant's common stock as of September 13, 2001, 282,736,029 shares were issued and outstanding, of which 126,027,324 are restricted by (i) all stockholders known to the Registrant 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 Registrant 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	29,600,000	10.47%
Common Stock	Cherry Family Trust (2) 29245 Pompano Way Laguna Niguel, California 92677	15,916,086	5.63%
Common Stock	Romis Corp. (3) P.O. Box 4321, Mission Viejo, California 92690	17,750,000	6.27%
Common Stock	Albert Reda Corp. (4) 3900 Birch Street, Suite 103 Newport Beach, California 92660	17,750,000	6.27%
Common Stock	Wade Whitely, III 3900 Birch Street, Suite 103		

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	Newport Beach, California 92660	2,000,000	0.71%
Common			
Stock	Albert R. Reda		
	3900 Birch Street, Suite 103		
	Newport Beach, California 92660	1,566,086	0.55%
Common			
Stock	Louis Cherry		
	3900 Birch Street, Suite 103		
	Newport Beach, California 92660	0	0.00%
Common			
Stock	Shares of all directors and executive officers as a group (3 persons)	84,582,172	33.45%

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

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

(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 Registrant.

### 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 Registrant and its officers, directors, and five percent or greater shareholders.

(a) On August 27, 1999 the Registrant entered into an agreement with Lifestyle Mortgage Partners for the acquisition of Mortgage Loans Home, also know as "Lifestyle Mortgage Partners", page online processing. Mr. Whitely, who became a director of the Registrant on September 27, 2000, was a general partner of Lifestyle. Under this agreement, the Registrant agreed to pay this partnership a monthly fee of \$5,000.00 as a monthly fee (this was never paid since the acquisition did not realize anticipated revenues). The Registrant did, however, issue a total of 5,000,000 shares of restricted common stock under the agreement.

(b) On November 1, 1999, the Registrant entered into an agreement with Mr. Whitely for the acquisition of the Optical Brigade.com website, and all of sunglasscentral and aces marketing URL's. Under this agreement, the Registrant agreed to pay Mr. Whitely a monthly fee of \$500.00 from the revenue generated by the website to maintain and upgrade the internet search engine activities to the sites (this fee was paid for a total of four months after the acquisition). In addition, the Registrant issued a total of 400,000 shares of restricted common stock under the agreement.

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The purchase included all inventory and shipping supplies as of the date of closing, and the following:

- (1) all the contracts with the suppliers and contact information;
- (2) the customer client base and contact information;
- (3) product ordering procedures and forms;
- (4) Virtual Cart Shopping Cart , Virtual Credit Card Processing Terminal, Authorize.Net (American Express, MasterCard, Visa, Discover/Novus and on line checks);
- (5) invoicing and shipping procedures;
- (6) procedure manual for operations; and
- (7) source codes for operations;

(c) On January 1, 2000, Mr. Reda entered into an employment agreement with the Registrant 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 Registrant's practices, less normal payroll deductions. On the anniversary date of each year through the fourth year, the salary each be increased by \$1,000 per month.

(2) In addition to this compensation, the Registrant 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 Registrant 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.
- (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 Registrant 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 Registrant. 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 Registrant 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 Registrant to

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executive officers or employees. In addition, Reda will also be entitled to vacation benefits.

(d) On January 1, 2000, Mr. Cherry entered into an employment agreement with the Registrant 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 Registrant'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 Registrant 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 Registrant 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.

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Report of Independent Accountant	36
Consolidated Balance Sheets as of June 30, 2001 and June 30, 2000	37
Consolidated Statements of Operations for the years ended June 30, 2001, June 30, 2000, and June 30, 1999	38
Consolidated Statement of Stockholders' Equity for the years ended June 30, 2001, June 30, 2000, and June 30, 1999	39
Consolidated Statements of Cash Flows for the years ended June 30, 2001, June 30, 2000, and June 30, 1999	40
Notes to Consolidated Financial Statements	42

#### SIGNATURES

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

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thereunto duly authorized.

Internet Business's International, Inc.

Dated: September 27, 2001

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 Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Albert R. Reda Albert R. Reda	Chief Executive Officer, Secretary, and Director	September 27, 2001
/s/ Louis Cherry Louis Cherry	Chairman of the Board, President, and Treasurer (Principal Financial and Accounting Officer)	September 27, 2001
/s/ Wade Whitely Wade Whitely	Director	September 27, 2001

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, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three fiscal years ended June 30, 2001, 2000 and 1999. 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 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, 2001 and 2000 and the results of their operations and their cash flows for each of the three fiscal years ended June 30, 2001, 2000 and 1999 in conformity with generally accepted accounting principles.



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/s/ Henry Schiffer C.P.A., a P.C.  
 Henry Schiffer C.P.A., a P.C.  
 Beverly Hills, California  
 September 10, 2001

INTERNET BUSINESS'S INTERNATIONAL, INC.  
 CONSOLIDATED BALANCE SHEETS  
 JUNE 30, 2001 AND 2000

	June 30 2001	June 30 2000
Assets		
Cash and cash equivalents	\$ 258,019	\$ 1,661,963
Accounts receivable, net	200,968	128,389
Inventories	166,307	0
Mortgage notes held for sale	6,929,724	2,907,741
Prepaid expenses and other	106,092	127,905
 Total current assets	 7,661,110	 4,825,998
Property and equipment, net	1,869,781	575,061
Intangible assets, net	2,543,697	2,884,174
Note receivable	0	654,009
	\$12,074,588	\$ 8,939,242
Liabilities and Stockholders' Equity		
Accounts payable	\$ 559,292	\$ 317,998
Accrued liabilities	40,963	48,900
Revolving line of credit	6,230,678	2,958,563
Current portion of long-term debt	14,048	29,165
Deferred revenues	56,966	247,090
Other current liabilities	0	0
 Total current liabilities	 6,901,947	 3,601,716
Long-term debt	1,168,453	203,931
Minority interest in subsidiaries	0	(5,868)
Stockholders' equity (deficit):		
Preferred stock, par value \$100.00 per share; 1,000,000 shares authorized; 0 and 23,900 issued and outstanding at June 30, 2001 and 2000, respectively.	0	2,390,000
Common stock, par value \$0.01 per share; 349,000,000 shares authorized; 267,236,029 and 221,115,113 shares issued and outstanding at June 30, 2001 and 2000, respectively	2,672,360	2,211,151
Additional paid-in capital	3,669,490	3,669,490
Accumulated deficit	(2,337,662)	(3,131,178)
 Total stockholders' equity	 4,004,188	 5,139,463
Total liabilities and stockholders' equity	\$12,074,588	\$ 8,939,242

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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, 2001, 2000 AND 1999

	June 30 2001	June 30 2000	June 30 1999
Revenues	\$49,500,039	\$10,169,090	\$ 140,641
Costs and expenses:			
Cost of revenues	42,458,697	8,848,582	22,724
Interest expense	142,406	86,611	0
Selling, general and administration	5,921,184	3,107,140	199,753
Depreciation and amortization	870,844	791,426	0
Total costs and expenses	49,393,131	12,833,759	222,477
Loss from operations	106,908	(2,664,669)	(81,836)
Other income (expense)	686,608	44,157	0
Income (loss) before income taxes and minority interest	793,517	(2,620,512)	(81,836)
Income taxes (benefit)	0	8,800	0
Income (loss) before extraordinary income and minority interest	0	(2,629,312)	(81,836)
Forgiveness of debt	0	0	2,249,644
(Loss) income before minority interest	793,517	(2,629,312)	2,167,808
Minority interest in loss of subsidiaries	0	(32,868)	0
Net income (loss)	793,517	(2,596,444)	2,167,808
Net loss (income) per common share	nil	nil	0.01
Weighted average number of common shares Outstanding	250,907,333	189,571,337	164,550,320

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, 2001, 2000 AND 1999

	June 30 2001	June 30 2000	June 30 1999
Preferred stock:			
Balance, beginning of year	\$ 0	\$ 2,390,000	\$ 0
Preferred stock issued	0	0	2,390,000
Balance, end of year	0	2,390,000	2,390,000
Common stock:			

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Balance, beginning of year	2,211,151	1,773,030	428,000
Common stock issued	461,209	438,121	1,345,030
Balance, end of year	2,672,360	2,211,151	1,773,030
Additional paid-in capital:			
Balance, beginning of year	3,669,490	356,930	1,000
Common stock issued	0	3,312,560	355,930
Balance, end of year	3,669,490	3,669,490	356,930
Retained earnings (deficit):			
Balance, beginning of year	(3,131,178)	(534,734)	(2,702,542)
Net (loss) income for the year	793,516	(2,596,444)	2,167,808
Balance, end of year	(2,337,662)	(3,131,178)	(534,734)
Total stockholders' equity	4,004,188	5,139,463	3,985,226

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, 2001, 2000 AND 1999

	June 30 2001	June 30 2000	June 30 1999
Cash Flows From Operating Activities:			
Net (loss) income	\$ 793,516	\$ (2,596,444)	\$ 2,167,808
Adjustment to reconcile net (loss) income to net cash used by operating activities:			
Depreciation and amortization	870,844	830,736	0
Reserve for loss on accounts and notes Receivable	119,372	150,000	0
Reserve for loss on mortgage loans Receivable	100,000	100,000	0
Minority interest	0	(32,868)	0
Changes in operating assets and liabilities:			
Accounts receivable	(200,986)	(148,813)	(4,576)
Inventories	(166,307)	0	0
Mortgage loans receivable net	(699,046)	82,259	0
Prepaid expenses and other	106,092	271,900	(308,120)
Accounts payable	559,292	(278,617)	(1,791,397)
Accrued liabilities	40,963	48,900	0
Deferred revenues	56,966	247,090	0
Other current liabilities	(14,048)	(1,800)	0
Net cash used in operating activities	1,566,658	(1,327,657)	63,715
Cash Flows From Investing Activities:			
Purchases of property and equipment	(1,713,601)	(755,952)	0
Businesses acquired in purchase transactions, net of cash paid	(26,250)	(104,865)	0
Purchases of intangible assets	(85,506)	(286,372)	(1,120,000)
Net cash used in investing activities	(1,825,357)	(1,147,189)	(1,120,000)
Cash Flows From Financing Activities:			
Net repayments under revolving line of Credits	(125,116)	(89,437)	0

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Repayment of short-term borrowings	0	0	(453,200)
Net issuance of long-term debt	964,522	(61,887)	0
Repayment of notes payable	(709,869)	(181,832)	0
Collection of notes receivable	654,009	1,080,991	0
Investment by minority interest	0	27,000	0
Preferred Stock	(2,390,000)		
Issuance of common stock	461,209	3,279,397	0
 Net cash provided by financing activities	 (1,145,245)	 4,054,232	 1,137,760
 Net increase (decrease) in cash	 (1,403,944)	 1,579,386	 81,475
Cash, beginning of year	1,661,693	82,577	1,102
 Cash, end of year	 258,019	 1,661,963	 82,577
 Interest paid	 142,406	 86,611	 0
Acquisition of Businesses:			
Fair value of:			
Assets acquired	31,250	4,640,167	
Liabilities assumed	0	(4,064,018)	
Stock issued	(5,000)	(471,284)	
 Net cash paid for acquisitions	 26,250	 104,865	

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 four reporting divisions made up of subsidiaries and or divisions of the Company. The four division are as follows: Lending on Line (which includes real estate loans and equipment leasing), Internet Service Provider (which includes a national Internet access dial-up service, wireless high speed Internet access in Las Vegas, Nevada and Woodland, California, and Internet web design and hosting), E-commerce (which includes auction sites, B2C and B2B Internet transaction, and reverse auction sites for Europe and the United States), Direct Marketing (which includes the direct marketing of long distance phone services, computers with Internet access, wireless high speed Internet access and bandwidth), and Internet web design hosting). The Company has 7 offices in the US and 1 in

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Europe and more than 60 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.

#### 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.

#### 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

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

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

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

#### Property and Equipment

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

#### Capitalized Computer Software

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Capitalized computer software included in intangible and other assets, reflects costs related to purchased Internet websites and related software that are capitalized and amortized on a straight-line basis over periods not exceeding five years. Costs incurred to acquire or upgrade websites and other internal software is capitalized in accordance with Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Amortization expense for fiscal 2001 and fiscal 2000 was \$ and, \$324,910 respectively.

### Intangible Assets

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

### Long-Lived Assets

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

### Additional Paid In Capital

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

There was no additional paid in capital during this fiscal year ending June 30, 2001.

### Revenue Recognition

Revenue is recognized for each of the division as follows:

ISP; for services provided fees paid are recognized as revenue. For design work fees are paid after the work is completed at which time it is reported as revenue. If the work is complete and has not been paid it is a receivable. For services revenue is recognized when paid for the time frame the services are contracted for. If the company hosts or provide internet access on a monthly bases then the revenue is booked as received which is paid in advance of the service actually being rendered. During fiscal 2001, the company recorded deferred revenues totaling \$56,966.

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

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

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

### 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.

### New Accounting Pronouncement

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognizes all derivatives as either assets or liabilities in the statement of financial position and measures these

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instruments at fair value. SFAS No. 133 is effective for the Company in the third quarter of fiscal 2002. The Company is currently evaluating what impact, if any, SFAS No. 133 may have on its financial statements.

### 3. ACQUISITIONS AND SERVICE AGREEMENTS

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

In June 1999, the Company acquired the assets of L.A. Internet, a southern California-based Internet Service Provider, which included customer accounts, trade name, websites, etc. for \$545,000 in exchange for a reduction of the Note Receivable from Iron Horse Holdings, Inc. (see Preferred Stock Note 8).

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

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

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

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

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

	Net 2Loan	Optical Brigade
Revenues	\$ 630,000	\$ 360,000
Cost of Operations & Expense	\$ (310,000)	\$ (150,000)
Net income (loss)	\$ 320,000	\$ 210,000
Income or (loss) per share	\$ nil	\$ nil

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

In February 2000, the Company acquired the assets and assumed certain liabilities of Direct Communications, Inc., a wireless communications company. In addition to assuming certain liabilities, the Company paid cash of \$80,000 and issued 30,000 shares (@\$.01 per share valued at \$300) of restricted company stock. Intangible assets purchased totaled \$265,000, consisting of customers lists, website and workforce-in-place and is being amortized over 5 years.

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



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## Allstates Communications

Revenues	\$ 1,200,000
Cost of Operations & Expense	\$ (900,000)
Net income (loss)	\$ 300,000
Income or (loss) per share	\$ nil

In March 2000, the Company acquired the assets and assumed certain liabilities of Internet 2xtreme, and Internet Service Provider based in northern California. The total purchase price was \$735,000, which consisted of cash of \$17,635, restricted company stock amounting to \$186,884 (the company issued 124,589 shares based the current upon a share value of \$1.50 per share) and assumption of certain liabilities. In connection with the acquisition, the Company recorded intangible assets of approximately \$666,000, which consisted of approximately 4,800 customer accounts, website and workforce-in-place, and are being amortized over 5 years.

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

	2xtreme
Revenues	\$ 720,000
Cost of Operations & Expense	\$ (600,000)
Net income (loss)	\$ 120,000
Income or (loss) per share	\$ nil

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

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

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

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

In April 2000, the Company acquired all of the outstanding stock of Atlas Capital Corporation, a mortgage-banking company, for 600,000 (@ \$.01 per share equals \$6,000) shares of Company stock. In connection with the acquisition, the Company acquired assets of approximately \$3,183,000 and assuming liabilities of approximately \$3,179,000. The difference of \$260,000 was recorded as intangible assets related to acquisition of trade names, websites, workforce-in-place and is being amortized over 5 years.

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

	Atlas Capital
Revenues	\$ 37,349,000
Cost of Operations & Expense	\$ (2,651,000)
Net loss	\$ (2,498,000)

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Loss per share \$ (nil)

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

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

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

#### 4. CERTAIN FINANCIAL STATEMENT INFORMATION

	June 30 2001	June 30 2000
Accounts receivable:		
Accounts receivable	\$ 396,977	\$ 303,924
Less: allowance for doubtful accounts	(196,009)	(175,535)
Accounts receivable, net	\$ 200,968	\$ 128,389
Mortgage loans held for sale:		
Mortgage loans held for sale	\$ 7,049,096	\$ 3,013,203
Less: allowance for loan losses	(119,372)	(105,462)
Mortgage loans held for sale, net	\$ 6,929,724	\$ 2,907,741
Property and equipment:		
Office furniture and equipment	\$ 47,155	\$ 74,051
Machinery and computer equipment	2,239,781	824,234
Leasehold improvements	1,726	2,182
Less: accumulated depreciation	(418,881)	(325,406)
Property and equipment, net	\$ 1,869,781	\$ 575,061
Intangible assets:		
Capitalized software costs, including websites	\$ 1,270,156	\$ 1,653,872
Subscriber member bases	1,302,118	1,190,632
Others, including customer lists, existing technology, trade names	423,386	545,000
Less: accumulated amortization	(451,963)	(505,330)
Intangible assets, net	\$ 2,543,697	\$ 2,884,174

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### 5. Revolving Lines of Credit

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

On February 1, 2000, the Company entered into a Master Repurchase Agreement that provides the Company with a warehouse facility through IMPAC Warehouse Lending Group ("IMPAC"). The IMPAC line provides the Company with an open warehouse credit line (as set forth by IMPAC) for the Company's mortgage originations only. Under the terms of the agreement, the Company must repay the funded amount within 30 days of the date the funds were disbursed with interest at the Prime Rate plus 1.0%. If the funds are not repaid within 30 days, the interest rate increases to Prime Rate plus 3.0% until repaid, and IMPAC reserves the right to sell the loan and any shortfall remains the liability of the Company. The IMPAC line is secured by the mortgage loans funded with the proceeds of such borrowings. The IMPAC line does not have a stated expiration date but is terminable by either party upon written notice. Amounts outstanding under the IMPAC line at June 30, 2001 and 2000 were \$ 6183,228 and \$ 254,217, respectively.

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

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

Quarter	Prime Rate	Impac	Imperial*	Number of Loans Held over 30 Days
Sept. 30 2000	9.50%	10.5%	N/A	0

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

\* Imperial line not in use prior to March 2001

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

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

### 6. Long-Term Debt

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

	Current Portion	Long-term	Total
Note payable to secured by certain Company assets, requiring monthly payments of \$6,494, including interest at 12.25%, due May 5, 2007	\$ 40,506	\$ 283,014	\$323,520

During the fiscal year certain real estate loans defaulted. The 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

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

### 8. Stockholders' Equity

#### Authorized Shares

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

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### Stock Issuance

The Company had and issued and outstanding 221,115,113 by the end of the previous fiscal year ending June 30, 2000. During this fiscal year there were 46,120,916 additional shares issued for a total of 267,236,029 issued and outstanding.

During the Quarter ending December 31, 2000; the following shares were issued 1. 500,000 shares of restricted 144 stock for the acquisition of Sonic Auction.Com and 2. 7,140,406 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.

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

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

After the Quarter ending June 30, 2001, the following shares were issued: 15,500,000 as per employment contract.

After the end of the fiscal year an additional 15,500,000 shares were issued bring the total number to 282,736,029 common snares issued and outstanding of which 134,495,037 are restricted.

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

The Company also issued 6,422,667 and 8,000,000 shares of Company stock in connection with the acquisition of business's or net assets during the fiscal years ended June 30, 2000 and 1999, respectively. The Company also issued 30,389,449 and 11,242,790 shares of Company stoc