

ALTERNET SYSTEMS INC
Form 10QSB/A
February 14, 2003

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

FORM 10-QSB/A

(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934 FOR THE
TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 000-31909

SCHOOLWEB SYSTEMS, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

(State or other jurisdiction of
incorporation or organization)

88-0473897

(IRS Employer Identification No.)

#280 - 815 West Hastings Street, Vancouver, British Columbia V6C 1B4

(604) 608-2540

(Registrant's telephone number)

North Pacific Capital Corp.

Suite 2602 - 1111 Beach Ave Vancouver, BC Canada V6E 1T9

(Former name, former address and former fiscal year, if changed since last report)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.001 Par Value

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

As of March 31, 2002, the Registrant had 15,483,000 shares of common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one) Yes ☐ No ☒

TABLE OF CONTENTS

| | PAGE |
|--|------|
| PART I - FINANCIAL INFORMATION | 3 |
| ITEM 1. FINANCIAL STATEMENTS | 3 |
| BALANCE SHEET AS OF MARCH 31, 2002 | 3 |
| INTERIM STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2002 | 4 |
| INTERIM STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2002 | 6 |
| NOTES TO FINANCIAL STATEMENTS | 7 |
| ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 8 |
| PART II - OTHER INFORMATION | 9 |
| ITEM 1. LEGAL PROCEEDINGS | 9 |
| ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS | 9 |
| ITEM 3. DEFAULTS UPON SENIOR SECURITIES | 9 |
| ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS | 9 |
| ITEM 5. OTHER INFORMATION | 9 |
| ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K | 9 |
| SIGNATURE | |

PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SCHOOLWEB SYSTEMS INC.

**(Formerly North Pacific Capital Corp.)
(A Development Stage Company)**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002

(Unaudited)

CONSOLIDATED BALANCE SHEETS

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**SCHOOLWEB SYSTEMS INC.
(Formerly North Pacific Capital Corp.)
(A Development Stage Company)**

CONSOLIDATED BALANCE SHEETS

CURRENT ASSETS

Cash
Prepaid expenses
Inventory

LICENSE RIGHTS, net of amortization of \$7,500 (Note 4)

FIXED ASSETS, net of depreciation of \$855

CURRENT LIABILITIES

Accounts payable
Due to related parties (Note 6)

COMMITMENTS AND CONTINGENCIES (Notes 1 and 4)

STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)

Capital stock (Note 5)
Common stock, \$0.00001 par value, 100,000,000 shares authorized
15,343,000 (2001 14,733,000) issued and outstanding
Additional paid-in capital
Accumulated comprehensive loss
Deficit accumulated during development stage

The accompanying notes are an integral part of these interim consolidated financial statements

SCHOOLWEB SYSTEMS INC.
(Formerly North Pacific Capital Corp.)
(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

HARDWARE SALES

\$

EXPENSES

Depreciation and amortization
 Consulting
 License fees
 Office and general
 Marketing
 Professional fees

NET LOSS FOR THE PERIOD

\$

BASIC NET LOSS PER SHARE

\$

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING

The accompanying notes are an integral part of these interim consolidated financial statements

SCHOOLWEB SYSTEMS INC.
(Formerly North Pacific Capital Corp.)
(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss for the period
 Adjusted for item not involving cash:
 Depreciation and amortization
 Changes in operating assets and liabilities:
 Accrued consulting fees
 Changes in inventory
 Changes in prepaid expenses

\$

Changes in accounts payable

NET CASH FLOWS USED IN OPERATING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

Advances (to) from related parties

Proceeds on sale of common stock

NET CASH FLOWS FROM FINANCING ACTIVITIES

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of capital assets

Cash acquired on reverse acquisition of SchoolWeb (Note 3)

NET CASH FLOWS USED IN INVESTING ACTIVITIES

EFFECT OF EXCHANGE RATE CHANGES ON CASH

INCREASE IN CASH

CASH, BEGINNING OF PERIOD

CASH, END OF PERIOD

\$

The accompanying notes are an integral part of these interim consolidated financial statements

SCHOOLWEB SYSTEMS INC.

**(Formerly North Pacific Capital Corp.)
(A Development Stage Company)**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002**

(Unaudited)

NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Company was incorporated on June 26, 2000 in the State of Nevada as North Pacific Capital Corp. and was organized for the purpose of creating a corporate vehicle to locate and acquire an operating business. On December

19, 2001 the Company changed its name to Schoolweb Systems Inc. (SW Systems or the Company). On November 6, 2000, the Company filed a Form 10SB registration with the United States Securities and Exchange Commission and as a result is subject to the regulations governing reporting issuers in the United States.

By agreement dated July 2, 2001 and completed September 10, 2001, SW Systems issued 12,343,000 shares of restricted common stock to the shareholders of Schoolweb Holdings Inc. (SW Holdings), a development stage company incorporated October 13, 2000 in the State of Nevada, in exchange for all of the issued and outstanding shares of SW Holdings.

The acquisition resulted in the former shareholders of SW Holdings acquiring 90.1% of the outstanding shares of the Company and has been accounted for as a reverse merger with SW Holdings being treated as the accounting parent and SW Systems, the legal parent, being treated as the accounting subsidiary. Accordingly, the consolidated results of operations of the Company include those of SW Holdings for all periods shown and those of the SW Systems since the date of the reverse acquisition. The results of operations of SW Holdings are from its inception, October 13, 2000 and include the results of its wholly-owned subsidiary, SchoolWeb Systems (Canada) Ltd. a company incorporated April 17, 2001 in the Province of British Columbia. The comparative balance sheet as at December 31, 2001 and the comparative results of operations and changes in financial position for the three months ended March 31, 2001 are those of SW Holdings. Refer to Note 3.

SW Holdings, through a License Agreement dated January 1, 2001, will distribute, market, sell and license in the United States and Canada, certain proprietary software and hardware systems technology known as SchoolWeb used for caching Internet and multimedia files on special servers (refer to Note 4).

The consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred losses since inception and further losses are anticipated before the Company reaches a commercial stage raising substantial doubt as to the Company's ability to continue as a going concern. The Company's continued operations are dependent on the successful implementation of its business plan, its ability to obtain additional financing as needed, and ultimately to attain profitable operations.

Unaudited Interim Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. They do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material changes in the information disclosed in the notes to the financial statements for the year ended December 31, 2001 included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-KSB. In the opinion of Management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, SW Holdings and Schoolweb Systems (Canada) Ltd. All significant intercompany transactions and account balances have been eliminated.

SCHOOLWEB SYSTEMS INC.
(Formerly North Pacific Capital Corp.)
(A Development Stage Company)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002 AND 2001

(Unaudited)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d)

Use of Estimates and Assumptions

Preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all liquid investments, with an original maturity of three months or less when purchased, to be cash equivalents.

Inventory

Inventory consists of computer hardware products held for resale and is carried at the lower of cost and net realizable value.

License Rights

The Company amortizes the cost of acquiring license rights on a straight-line basis over the term of the license. The Company evaluates the carrying amount of its unamortized license rights against the undiscounted future cash flows associated with them. If the evaluation indicates that the future undiscounted cash flows are not sufficient to recover the carrying value, an impairment provision is recorded to adjust the carrying value of the license rights to their fair value.

Fixed Assets

Fixed assets are recorded at cost and depreciated on a declining balance basis at a rate of 30% per annum.

Revenue recognition

To date, the Company has not generated any revenues from the licensing of its SchoolWeb system. The Company will license its SchoolWeb system on a prepaid basis for terms ranging from one to three years. The Company will recognize license revenues on a straight-line basis over the license term upon completion of the required hardware and software installations and upon acceptance by the purchasers.

The Company has generated revenues from hardware sales in connection with the testing of the SchoolWeb system. Hardware sales are shown net of hardware acquisition costs and are recognized upon completion and acceptance of installation.

Foreign Currency Translation

The financial statements are presented in United States dollars. In accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation", foreign denominated monetary assets and liabilities are translated to

their United States dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Related translation adjustments are reported as a separate component of stockholders' equity, whereas gains or losses resulting from foreign currency transactions are included in results of operations.

Fair Value of Financial Instruments

In accordance with the requirements of SFAS No. 107, the Company has determined the estimated fair value of financial instruments using available market information and appropriate valuation methodologies. The fair value of financial instruments classified as current assets or liabilities approximate carrying value due to the short-term maturity of the instruments.

Stock-Based Compensation

The Company accounts for stock-based compensation in respect to stock options granted to employees and officers using the intrinsic value based method in accordance with APB 25. Stock options granted to non-employees are accounted for using the fair value method in accordance with SFAS No. 123. In addition, with respect to stock options granted to employees, the Company provides pro-forma information as required by SFAS No. 123 showing the results of applying the fair value method using the Black-Scholes option pricing model.

SCHOOLWEB SYSTEMS INC.

(Formerly North Pacific Capital Corp.)

(A Development Stage Company)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002 AND 2001

(Unaudited)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d)

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with SFAS No. 123 and the conclusions reached by the Emerging Issues Task Force in Issue No. 96-18. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earliest of a performance commitment or completion of performance by the provider of goods or services as defined by EITF 96-18.

The Company has also adopted the provisions of the Financial Accounting Standards Board Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB Opinion No. 25 (FIN 44), which provides guidance as to certain applications of APB 25. FIN 44 is generally effective July 1, 2000 with the exception of certain events occurring after December 15, 1998.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax balances. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to the taxable income in the years in which those differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a

change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. As at March 31, 2002 the Company had net operating loss carryforwards; however, due to the uncertainty of realization the Company has provided a full valuation allowance for the deferred tax assets resulting from these loss carryforwards.

Net Loss per Common Share

Basic loss per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Dilutive earnings per share reflects the potential dilution of securities that could share in the earnings of the Company. The accompanying presentation is only of basic loss per share as the potentially dilutive factors are anti-dilutive to basic loss per share.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142), which requires that goodwill not be amortized. SFAS requires that the Company review goodwill at least annually to determine if an impairment has occurred and if so that goodwill should be reduced accordingly. The Company has determined that the implementation of this standard does not have any impact on its financial statements.

NOTE 3 ACQUISITION OF SW HOLDINGS

By agreement dated July 2, 2001 and completed September 10, 2001, SW Systems acquired 100 % of the issued and outstanding shares of SW Holdings in exchange for 12,343,000 shares of restricted common stock of SW Systems. At the time of this transaction, the former shareholders of SW Holdings acquired 90.1% of the 13,693,000 total issued and outstanding shares of SW Systems.

This acquisition has been accounted for as a recapitalization using accounting principles applicable to reverse acquisitions with SW Holdings being treated as the accounting parent (acquirer) and SW Systems being treated as the accounting subsidiary (acquiree). The value assigned to the capital stock of consolidated SW Systems on acquisition of SW Holdings is equal to the book value of the capital stock of SW Holdings plus the book value of the net assets of SW Systems as at the date of the acquisition.

SCHOOLWEB SYSTEMS INC.

(Formerly North Pacific Capital Corp.)

(A Development Stage Company)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002 AND 2001

(Unaudited)

NOTE 3 ACQUISITION OF SW HOLDINGS (con t)

The book value of SW System s capital stock subsequent to the acquisition is calculated and allocated as follows:

| | |
|----------|----|
| SW | |
| Holdings | |
| capital | \$ |
| stock | |

SW
Systems
net assets
(liabilities)

\$

Capital
stock
Additional
paid-in
capital

\$

\$

These consolidated financial statements include the results of operations of SW Holdings since October 13, 2000 (inception) and the results of operations of SW Systems since the date of the reverse acquisition on September 10, 2001. SW Systems had no material assets, liabilities or operations for the period from July 1, 2001 to September 10, 2001.

NOTE 4 - LICENSE AGREEMENT

By agreement dated January 1, 2001, SW Holdings entered into an agreement with Advanced Interactive Inc. (AII) and Advanced Interactive (Canada) Inc. (AIC) whereby SW Holdings acquired exclusive and non-exclusive rights and licenses to commercialise, distribute and market SW Holdings related licensed technology, products and services in the United States and Canada for a period of five years. SW Holdings must pay royalties equal to 40% of net revenue received plus \$10,000 per month in the first year, \$20,000 per month in year two, and increasing by \$8,000 per month in each of the subsequent years to a maximum of \$84,000 per month. After year three, the monthly payment is reduced by the amount of royalties otherwise payable. In addition SW Holdings issued 2,500,000 shares on June 29, 2001 valued at \$.01 per share or \$25,000.

Effective September 10, 2001 SW Holdings, AII and AIC amended the original agreement such that AI and AIC would receive an additional 500,000 shares valued at \$5,000 which SW Systems issued on September 10, 2001.

Also effective September 10, 2001 the President and director of AII and AIC became a director of the Company.

NOTE 5 CAPITAL STOCK

To March 31, 2002, the Company has not granted any stock options and has not recorded any stock-based compensation.

During the period, the Company completed a private placement of 510,000 units at a price of \$.20 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire an additional share at a price of \$0.50 per share to February 28, 2004.

During the period, the Company completed a private placement of 100,000 units at a price of \$.35 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire an additional share at a price of \$0.50 per share to March 15, 2004.

At March 31, 2002 there were 510,000 warrants outstanding to purchase 510,000 common shares at a price of \$0.50 per share to February 28, 2004, 375,000 warrants outstanding to purchase 375,000 common shares at a price of \$0.50 per share to November 24, 2003, and 100,000 warrants outstanding to purchase 100,000 common shares at a price of

\$0.50 per share to March 15, 2004.

SCHOOLWEB SYSTEMS INC.

(Formerly North Pacific Capital Corp.)

(A Development Stage Company)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002 AND 2001

(Unaudited)

NOTE 6 RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2002, certain directors were paid for accrued consulting fees of \$17,300 and were repaid cash advances totalling \$4,753. At March 31, 2002 a total of \$11,433 is owing to directors and shareholders. Amounts due from related parties are non-interest bearing and have no specific terms of repayment.

During the three months ended March 31, 2002, the following amounts were incurred to directors of the Company or its subsidiary, a company with a director in common and a company controlled by a shareholder of the Company.

| | |
|--------------|----|
| Consulting | \$ |
| License | |
| fees | |
| Marketing | |
| Professional | |
| fees | |

\$

NOTE 7 INCOME TAXES

The Company and its subsidiaries have tax losses which may be available to reduce future year's taxable income, that result in deferred tax assets. Management believes that the realization of the benefits from these deferred tax assets appears uncertain due to the Company's limited operating history and losses to date. Accordingly a full, deferred tax asset valuation allowance has been provided and no deferred tax asset benefit has been recorded.

NOTE 8 SUBSEQUENT EVENT

Subsequent to March 31, 2002, the Company received \$53,500 towards private placement subscriptions for shares of common stock at a price of \$.35 per unit.

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Registrant is not a party to any material pending legal proceedings and, to the best of its knowledge, no such action by or against the Registrant has been threatened. ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable

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

None.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Reports on Form 8-K. The Registrant filed one report on Form 8-K during the quarterly period ended March 31, 2002 dated March 6, 2002.

(b) Exhibits. Exhibits included or incorporated by reference herein: See Exhibit Index.

SIGNATURE

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

SCHOOLWEB SYSTEMS, INC.

Dated: May 15, 2002

By: /s/ Michael Dearden
Michael Dearden,
President and Director

EXHIBIT INDEX

| Number | Exhibit Description |
|--------|---|
| 3.1 | Articles of Incorporation (incorporated by reference to Exhibit 3 of the Registration Statement on Form 10-SB filed on September 28, 2000). |
| 3.2 | Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 2 of the Form 10-SB filed on September 28, 2000). |

- 3.3 Certificate of Amendment to Articles of Incorporation dated October 13, 2000.
(incorporated by reference to Exhibit 3.3 of the Form 10-QSB filed on
November 7, 2000)
 - 3.4 By-Laws (incorporated by reference to Exhibit 3.3 of the Form 10-QSB filed on
November 7, 2001)
-