

Edgar Filing: SUITE 101 COM INC - Form 10QSB

SUITE 101 COM INC
Form 10QSB
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2002; or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission file Number: 0-25136

SUITE101.COM INC.

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

DELAWARE

33-0464753

(State or other jurisdiction of incorporation of organization)

(I.R.S. employer identification no.)

SUITE 210 - 1122 MAINLAND STREET, VANCOUVER, BC, CANADA V6B 5L1

(Address of principal executive offices, zip code)

604-682-1400

(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

| Class | Outstanding at May 9, 2002 |
|---|----------------------------|
| COMMON STOCK, PAR VALUE \$.001 PER SHARE | 13,249,519 |

Transitional Small Business Disclosure Format

Edgar Filing: SUITE 101 COM INC - Form 10QSB

Yes [] No [X]

SUITE101.COM, INC.

QUARTERLY REPORT ON FORM 10-QSB

TABLE OF CONTENTS

| | PAGE NO. ----- |
|--|-------------------|
| PART I FINANCIAL INFORMATION | |
| Item 1. Financial Statements | 3 |
| Independent Accountants' Report | 3 |
| Consolidated Balance Sheets - March 31, 2002 and December 31, 2001 | 4 |
| Consolidated Statements of Operations - Three-Month Periods Ended March 31, 2002 and March 31, 2001 | 5 |
| Consolidated Statements of Cash Flows - Three-Month Periods Ended March 31, 2002 and March 31, 2001 | 6 |
| Notes to Consolidated Financial Statements - March 31, 2002 and March 31, 2001 | 7-14 |
| Item 2. Management's Discussion and Analysis or Plan of Operation | 15-23 |
| PART II OTHER INFORMATION | 24 |
| Item 6. Exhibits and Reports on Form 8-K | 24 |

2

ITEM 1. FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
SUITE101.COM, INC.
VANCOUVER, B.C., CANADA

Edgar Filing: SUITE 101 COM INC - Form 10QSB

We have reviewed the accompanying consolidated balance sheet of Sutie101.com, Inc. and subsidiaries as of March 31, 2002 and the related consolidated statements of operations and cash flows for the three-month period the ended. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such consolidated financial statements for them to be in conformity with generally accepted accounting principles.

VANCOUVER, B.C.
May 8, 2002

/s/ N.I. Cameron Inc.

CHARTERED ACCOUNTANTS

3

SUITE101.COM, INC.
CONSOLIDATED BALANCE SHEETS

(EXPRESSED IN U.S. DOLLARS)

| | MARCH 31, 2002 | DECEMBER 31, 2001 |
|---|-------------------|----------------------|
| | ----- | ----- |
| | (UNAUDITED) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 3,091,654 | \$ 4,048,630 |
| Accounts receivable | 33,249 | 42,289 |
| Prepaid expenses | 50,806 | 68,453 |
| | ----- | ----- |
| | 3,175,709 | 4,159,372 |
| | ----- | ----- |
| PROPERTY, PLANT AND EQUIPMENT, at cost (Note 2) | | |
| Computer equipment | 208,489 | 217,394 |
| Furniture and fixtures | 22,268 | 22,352 |
| Leasehold improvements | 7,960 | 7,990 |
| | ----- | ----- |
| | 238,717 | 247,736 |

Edgar Filing: SUITE 101 COM INC - Form 10QSB

| | | |
|--|--------------|--------------|
| Less: accumulated amortization | 125,549 | 127,295 |
| | ----- | ----- |
| | 113,168 | 120,441 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 3,288,877 | \$ 4,279,813 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 47,720 | \$ 223,531 |
| Deposits (Note 8 (f)) | 14,673 | -- |
| | ----- | ----- |
| TOTAL LIABILITIES | 62,393 | 223,531 |
| | ----- | ----- |
| CAPITAL STOCK (Notes 4, 5 and 8) | | |
| Authorized: | | |
| 40,000,000 common shares with a par value of \$0.001 each | | |
| 1,000,000 preferred shares with a par value of \$0.01 each | | |
| Issued: | | |
| 13,234,197 common shares | 13,235 | 13,155 |
| DEFERRED COMPENSATION | -- | (14,034) |
| ADDITIONAL PAID-IN CAPITAL | 10,397,285 | 10,377,576 |
| DEFICIT | (7,096,745) | (6,233,343) |
| EQUITY ADJUSTMENT FROM FOREIGN | | |
| CURRENCY TRANSLATION | (87,291) | (87,072) |
| | ----- | ----- |
| TOTAL STOCKHOLDERS' EQUITY | 3,226,484 | 4,056,282 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 3,288,877 | \$ 4,279,813 |
| | ===== | ===== |
| COMMITMENTS AND SUBSEQUENT EVENTS (NOTES 3 AND 8) | | |

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

4

SUITE101.COM, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2002 AND MARCH 31, 2001
(UNAUDITED)

(EXPRESSED IN U.S. DOLLARS)

| | MARCH 31, 2002 | MARCH 31, 2001 |
|---------------|-------------------|-------------------|
| | ----- | ----- |
| SALES | \$ 6,658 | \$ 262 |
| COST OF SALES | 3,563 | -- |
| | ----- | ----- |
| GROSS PROFIT | 3,095 | 262 |
| | ----- | ----- |

Edgar Filing: SUITE 101 COM INC - Form 10QSB

| | | |
|-----------------------------------|--------------|--------------|
| OPERATING EXPENSES | | |
| General and administrative | 862,207 | 402,574 |
| Marketing | 16,409 | 94,585 |
| | ----- | ----- |
| | 878,616 | 497,159 |
| | ----- | ----- |
| LOSS FROM OPERATIONS | (875,521) | (496,897) |
| | ----- | ----- |
| OTHER INCOME | | |
| Other income, net | 12,119 | 73,430 |
| | ----- | ----- |
| NET LOSS | \$ (863,402) | \$ (423,467) |
| | ===== | ===== |
| INCOME (LOSS) PER SHARE | | |
| Basic and Diluted | \$ (0.07) | \$ (0.03) |
| | ===== | ===== |
| | | |
| Average common shares outstanding | 13,201,405 | 13,155,046 |
| | ===== | ===== |

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

5

SUITE101.COM, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2002 AND MARCH 31, 2001
(UNAUDITED)

(EXPRESSED IN U.S. DOLLARS)

| | MARCH 31, 2002 | MARCH 31, 2001 |
|--|-------------------|-------------------|
| | ----- | ----- |
| CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Net loss | \$ (863,402) | \$ (423,467) |
| Adjustment to reconcile net loss to net cash used in operating activities | | |
| Stock-based compensation | 14,034 | 15,606 |
| Amortization | 8,573 | 8,114 |
| | ----- | ----- |
| | (840,795) | (399,747) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 8,906 | 27,783 |
| Prepaid expenses and deposits | 17,522 | 18,797 |
| Accounts payable and accrued expenses | (175,502) | (15,227) |
| Deposits | 14,713 | -- |
| | ----- | ----- |
| Net cash used in operating activities | (975,156) | (368,394) |
| | ----- | ----- |
| CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES | | |
| Purchase of capital assets | (2,360) | (2,532) |

Edgar Filing: SUITE 101 COM INC - Form 10QSB

| | | |
|---|-------------|-------------|
| Proceeds on disposal of capital assets | 627 | -- |
| | ----- | ----- |
| Net cash used in investing activities | (1,733) | (2,532) |
| | ----- | ----- |
| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES | | |
| Proceeds from issuance of common stock and warrants | 19,788 | -- |
| | ----- | ----- |
| Net cash provided by financing activities | 19,788 | -- |
| | ----- | ----- |
| EFFECT OF EXCHANGE RATES ON CASH | 125 | (9,799) |
| | ----- | ----- |
| NET DECREASE IN CASH | (956,976) | (380,725) |
| | ----- | ----- |
| CASH AT BEGINNING OF YEAR | 4,048,630 | 5,671,211 |
| | ----- | ----- |
| CASH AT END OF YEAR | \$3,091,654 | \$5,290,486 |
| | ===== | ===== |

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

6

SUITE101.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002 AND MARCH 31, 2001
(UNAUDITED)

(EXPRESSED IN U.S. DOLLARS)

1. THE COMPANY

Suite101.com Inc. (formerly known as Kinetic Ventures Ltd. (the "Company")) was incorporated in the State of California, United States on May 20, 1991, and reincorporated in the State of Delaware, United States on December 31, 1993. By way of a reverse takeover on December 8, 1998 (see Note 2) the Company acquired a wholly-owned subsidiary i5ive communications inc. ("i5ive"). i5ive is engaged in the creation, operation and maintenance of a World Wide Web based community.

Going Concern

The accompanying consolidated financial statements have been presented assuming the Company will continue as a going concern. Based on the current level of expenditures, the Company has sufficient funds to meet expenses for at least one year. At March 31, 2002, the Company had accumulated \$7,096,745 in losses and had no material revenue producing operations. At the date of this report, the Company's ability to continue as a going concern is dependent upon its ability to raise additional capital or merge with a revenue producing venture partner. These matters raise doubt about the Company's ability to continue as a going concern. No adjustments have been made in the accompanying consolidated financial statements to provide for this uncertainty.

Basis of Presentation

Edgar Filing: SUITE 101 COM INC - Form 10QSB

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Endovascular, Inc., a California corporation and i5ive communications inc., a Canadian company. All intercompany accounts and transactions have been eliminated in consolidation. As at March 31, 2002, there were no operations in Endovascular, Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgment by management.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Property, Plant and Equipment

Property, plant and equipment are capitalized at original cost and amortized over their estimated useful lives at the following annual bases and rates:

| | |
|------------------------|-----------------------|
| Computer equipment | 30% declining balance |
| Furniture and fixtures | 20% declining balance |
| Leasehold improvements | 20% straight-line |

One-half the normal amortization is taken in the year of acquisition.

7

SUITE101.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002 AND MARCH 31, 2001
(UNAUDITED)

(EXPRESSED IN U.S. DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Research and Development

Research and development costs are expensed as incurred.

(c) Foreign Exchange

Unless otherwise stated, all amounts are in United States dollars. The functional currency of i5ive is the Canadian dollar. Hence, all asset and liability accounts have been translated using the exchange rate as at March 31, 2002 and December 31, 2001 and all revenues and expenses have been translated using the average exchange rate for each period. The rates used were as follows:

| | | |
|--------------------------------|-----------|--------------|
| (equivalent CDN \$ per U.S.\$) | March 31, | December 31, |
|--------------------------------|-----------|--------------|

Edgar Filing: SUITE 101 COM INC - Form 10QSB

| | 2002 | 2001 |
|---------------|-------|-------|
| Exchange rate | .6255 | .6278 |

(d) Net Loss Per Common Share

The Company computes its loss per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" ("EPS") issued in February, 1997. SFAS No. 128 requires dual presentation of basic EPS and diluted EPS on the face of the income statement for entities with complex capital structures. Basic EPS is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities.

3. RELATED PARTY TRANSACTIONS

- (a) The Company has incurred salaries, termination payments and consulting fees of \$205,372 during the period ended March 31, 2002 (2001 - \$34,756) to three directors of the Company.
- (b) Management fees of \$51,594 have been paid during the period ended March 31, 2002 to a corporation controlled by a director of the Company. Effective January 31, 2002, the Company entered into a management agreement with this corporation. The agreement calls for a monthly management fee of \$26,000 plus an amount equal to the receipts received from any contracts with Barnes&Noble.com, LLC and may be terminated by either party upon giving ten days notice.

8

SUITE101.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002 AND MARCH 31, 2001
(UNAUDITED)

(EXPRESSED IN U.S. DOLLARS)

4. CAPITAL STOCK

- (a) In April 1999, the Company completed a private placement of 1,000,000 units for \$5,000,000. Each unit was comprised of two common shares and one warrant entitling the holder to purchase an additional common share for \$4.50 on or before February 29, 2000. During the year ended December 31, 2000, all 1,000,000 warrants were exercised to net the Company \$4,500,000. The Company incurred \$163,750 in expenses concerning this share issuance and issued 15,000 warrants entitling the holder to purchase an additional common share for \$5.50 on or before February 29, 2002. None of these 15,000 warrants were exercised prior to their expiry date.
- (b) During the year ended December 31, 2000, the Company issued 625,000 warrants as part of the private placement of Notes payable. Each warrant entitles the holder to purchase one common share at a price of \$5.00 up to July 15, 2002. In the event that at any time prior to July 15, 2002 (a) the shares of common stock issuable on exercise of the

Edgar Filing: SUITE 101 COM INC - Form 10QSB

warrants have been registered under the Securities Act of 1933, as amended (the "Securities Act"), and (b) the average of the closing bid and asked prices for the Company's common stock as quoted on the OTC Bulletin Board (or such other automated trading system or national securities exchange as is the principal market for the Company's common stock) exceeds (U.S.) \$9.00 per share for a period of ten (10) business days, then the warrants will expire at 5:00 PM, New York City time, on a date sixty (60) days thereafter. To date, none of these warrants have been exercised.

- (c) During the current period, the Company issued 79,151 common shares for total proceeds of \$19,788 upon exercise of stock options.

5. STOCK OPTIONS

THE COMPANY'S 1998 STOCK INCENTIVE PLAN

In December 1998, the Company adopted the 1998 Stock Incentive Plan (the "Plan"). Under the Plan, as amended, 3,900,000 shares of common stock have been reserved for issuance on exercise of options granted under the Plan.

On the date of the closing of the transaction with i5ive, outstanding options granted under i5ive's 1998 Stock Incentive Plan were assumed by the Company under the Plan and no further option grants will be made under i5ive's Plan. The assumed options have substantially the same terms, subject to anti-dilution adjustment, as are in effect for grants made under the Company's Plan.

The Board of Directors of the Company may amend or modify the Plan at any time, subject to any required stockholder approval. The Plan will terminate on the earliest of (i) 10 years after the Plan Effective Date, (ii) the date on which all shares available for issuance under the Plan have been issued as fully-vested shares or (iii) the termination of all outstanding options in connection with certain changes in control or ownership of the Company.

9

SUITE101.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002 AND MARCH 31, 2001
(UNAUDITED)

(EXPRESSED IN U.S. DOLLARS)

5. STOCK OPTIONS (Continued)

THE COMPANY'S 1998 STOCK INCENTIVE PLAN (Continued)

The following is a table of stock options under the Plan as at December 31, 2001:

| Option | Expiry | Vesting | Balance | Granted | Expires (Exp) |
|--------|--------|---------|---------|---------|---------------|
|--------|--------|---------|---------|---------|---------------|

Edgar Filing: SUITE 101 COM INC - Form 10QSB

| Exercise Price | Date (mm/dd/yy) | Date (mm/dd/yy) | December 31, 2001 | During the Period | Exercised(E) Cancelled(C) |
|----------------|-----------------|--------------------|-------------------|-------------------|------------------------------|
| \$1.50 | 12/04/03 | 12/04/99 | 159,037 | -- | 11,874 (C) |
| 1.50 | 12/04/03 | 12/04/00 | 27,837 | -- | 6,375 (C) |
| 1.50 | 02/23/09 | (1/3) 02/23/00 | 50,000 | -- | -- |
| | | (1/3) 02/23/01 | | | |
| | | (1/3) 02/23/02 | | | |
| 1.50 | 04/27/09 | (1/3) 04/27/00 | 50,000 | -- | -- |
| | | (1/3) 04/27/01 | | | |
| | | (1/3) 04/27/02 | | | |
| 1.50 | 06/11/09 | 06/11/00 | 10,000 | -- | -- |
| 1.50 | 10/25/05 | (1/2) 10/25/00 | 100,000 | -- | -- |
| | | (1/2) 10/25/01 | | | |
| 1.50 | 11/13/04 | 11/13/99 | 137,900 | -- | -- |
| 1.50 | 11/13/04 | 11/13/00 | 646,300 | -- | 30,300 (C) |
| 3.53 | 01/31/02 | (1/2) 01/31/00 | 4,000 | -- | 4,000 (Exp) |
| | | (1/2) 01/31/01 | | | |
| 1.50 | 03/21/05 | 03/21/01 | 20,000 | -- | -- |
| 1.50 | 01/31/05 | 16,668 - 01/31/01 | 50,000 | -- | 6,666 (C) |
| | | 16,666 - 01/31/02 | | | |
| | | 16,666 - 01/31/03 | | | |
| 1.50 | 04/17/05 | 20,402 - 04/17/00 | 60,067 | -- | 6,666 (C) |
| | | 30,137 - 04/17/01 | | | |
| | | 30,133 - 04/17/02 | | | |
| | | 30,133 - 04/17/03 | | | |
| 1.50 | 07/05/05 | 3,222 - 07/05/00 | 56,443 | -- | 6,666 (C) |
| | | 17,740 - 07/05/01 | | | |
| | | 17,740 - 07/05/02 | | | |
| | | 17,741 - 07/05/03 | | | |
| 0.25 | 12/21/05 | 585,476 - 12/21/00 | 999,236 | -- | 72,416 (E) |
| | | 420,677 - 12/21/01 | | | |
| 1.50 | 06/12/10 | 06/12/00 | 10,000 | -- | -- |
| 0.25 | 01/04/06 | 136,073 - 01/04/01 | 484,410 | -- | 54,610 (C) |
| | | 376,507 - 01/04/02 | | | 6,735 (E) |
| | | 50,000 - 01/04/03 | | | |
| 0.25 | 05/10/06 | 05/10/01 | 4,268 | -- | -- |
| 0.17 | 06/04/11 | 06/04/01 | 10,000 | -- | -- |
| 0.25 | 10/03/06 | 2,516 - 10/30/01 | 15,516 | -- | -- |
| | | 3,000 - 01/04/02 | | | |
| | | 10,000 - 01/04/03 | | | |
| 0.27 | 02/25/12 | 50,001 - 02/25/03 | -- | 150,000 | -- |
| | | 50,001 - 02/25/04 | | | |
| | | 49,998 - 02/25/05 | | | |
| 0.27 | 02/27/07 | 16,667 - 02/27/03 | -- | 50,000 | -- |
| | | 16/667 - 02/27/04 | | | |
| | | 16/666 - 02/27/05 | | | |

Edgar Filing: SUITE 101 COM INC - Form 10QSB

5. STOCK OPTIONS (Continued)

THE COMPANY'S 1998 STOCK INCENTIVE PLAN (Continued)

As a result of the termination of certain employees and directors, and a directors' resolution made during the period, changes have been made to the expiry dates and vesting dates of the above options as follows:

- a) All options other than the \$0.27 options became immediately vested.
- b) Of the remaining \$1.50 options, the expiry dates are as follows:
- | | |
|-------------------|-----------|
| July 7, 2002 | 3,334 |
| July 31, 2002 | 67,668 |
| June 30, 2003 | 1,065,110 |
| December 4, 2003 | 64,025 |
| November 13, 2004 | 108,900 |
- c) Of the remaining \$0.25 options, the expiry dates are as follows:
- | | |
|-------------------|-----------|
| July 7, 2002 | 6,702 |
| July 31, 2002 | 104,138 |
| December 31, 2002 | 1,124,309 |
| January 4, 2006 | 134,520 |
- d) The \$0.17 options will expire December 31, 2002.

The above options are granted for services provided to the Company. Of the above options, the following options are to non-employees and have been reflected on the financial statements and valued, using the Black-Scholes model with a risk-free rate of 5% and no expected dividends:

| Number of Options | Exercise Price | Grant Date | Value | Volatility Assumption | Expected Options Life |
|----------------------|-------------------|-------------------|-----------|--------------------------|--------------------------|
| 100,000 | 1.50 | October 25, 1999 | \$ 99,750 | 272% | 5 years |
| 50,000 | 3.56 | January 6, 2000 | 99,635 | 60% | 5 years |
| 4,000 | 3.53 | January 31, 2000 | 5,120 | 60% | 2 years |
| 100,000 | 7.00 | February 15, 2000 | 203,970 | 20% | 5 years |
| 20,000 | 7.88 | March 21, 2000 | 45,922 | 20% | 5 years |
| 100,000 | 0.25 | January 4, 2001 | 23,390 | 275% | 5 years |
| 13,000 | 0.25 | October 3, 2001 | 3,041 | 275% | 5 years |

The remaining options issued were to officers, directors and employees. As the options were granted at exercise prices based on the market price of the Company's shares at the dates of the grant, no compensation cost is recognized. However, under SFAS 123, the impact on net income and net income per share of the fair value of stock options must be measured and disclosed on a fair value based method on a pro forma basis. The fair value of the employees' purchase rights under SFAS 123 was estimated using the Black-Scholes model with the following assumptions used for options: risk-free rate was 5.0%, expected volatility of 279%, 272% 263% and 257% for the \$1.50 options, 275% for the \$0.25 and \$0.17 options, and 96% for the \$0.27 options, an expected option life of 5 years and no expected dividends.

SUITE101.COM, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2002 AND MARCH 31, 2001
 (UNAUDITED)

(EXPRESSED IN U.S. DOLLARS)

5. STOCK OPTIONS (Continued)

THE COMPANY'S 1998 STOCK INCENTIVE PLAN (Continued)

 If compensation expense had been determined pursuant to SFAS 123, the Company's net loss and net loss per share for the period ended March 31, 2002 would have been as follows:

| | | |
|--------------------------|--|--------------|
| Net loss | | |
| As reported | | \$ (863,402) |
| Pro forma | | \$ (925,543) |
| Basic net loss per share | | |
| As reported | | \$ (0.07) |
| Pro forma | | \$ (0.07) |

6. INCOME TAXES

At March 31, 2002, there were deferred income tax assets resulting primarily from operating loss carryforwards for Canadian tax purposes totaling approximately \$2,125,000 less a valuation allowance of \$2,125,000. The valuation allowance on deferred tax assets increased by \$285,000 during the period ended March 31, 2002.

At March 31, 2002, the Company had net operating loss carryforwards for Canadian tax purposes of approximately \$5,680,000. These carryforwards begin to expire in 2003.

At March 31, 2002, there were deferred income tax assets resulting from operating loss carryforwards for U.S. income tax purposes totaling approximately \$615,000 less a valuation allowance of \$615,000. The valuation allowance on deferred tax assets increased by \$50,000 during the period ended March 31, 2002. The Company has approximately \$1,435,000 available in operating loss carryforwards, which may be carried forward and applied against U.S. operating income.

7. FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

The Company's financial instruments consist of cash, accounts receivable and accounts payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values.

Edgar Filing: SUITE 101 COM INC - Form 10QSB

SUITE101.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002 AND MARCH 31, 2001
(UNAUDITED)

(EXPRESSED IN U.S. DOLLARS)

8. COMMITMENTS AND SUBSEQUENT EVENTS

- (a) On March 23, 1999, the Company entered into a twelve-month agreement with a consultant, which provided for fees of \$5,000 per month. In addition, the consultant was issued a one-year warrant to purchase 50,000 shares of common stock at a price of \$3.06 per share. This warrant has been valued at \$33,420 using the Black-Scholes model as described earlier and is reflected as compensation on these financial statements. During the year ended December 31, 2000, this warrant was exercised to net the Company \$153,000. Subsequent to December 31, 1999, this agreement was amended to increase the fees to \$20,900 for the six-month period beginning August 23, 1999, extend the period of services by six-months, and to issue a warrant to purchase 25,440 shares of common stock of the Company at a price of \$5.50 per shares expiring February 28, 2002. This warrant has been valued at \$11,750 using the Black-Scholes model and is reflected as compensation on these financial statements. This warrant expired during the current period without being exercised.
- (b) During the year ended December 31, 2000, the Company entered into a one-year agreement with a consultant. The consultant was issued a warrant to purchase 14,000 shares of common stock of the Company at a price of \$5.50 per share, expiring on February 26, 2002. This warrant has been valued at \$9,562 using the Black-Scholes model as described earlier and is reflected as compensation on these financial statements. This warrant expired during the current period without being exercised.
- (c) The Company has entered into an agreement dated February 17, 2000 for consulting and corporate finance services which provides for the issue of 2-year warrants at the following milestones:

| | |
|--|-------------------|
| Upon execution of consulting agreement | - 25,000 (issued) |
| On signed letter of intent with target customer | - 25,000 |
| On signed agreement with target customer | - 25,000 |
| On signed agency agreement to market similar program to others in same industry in North America | - 25,000 |

In addition, the agreement provides for additional warrants to be issued over 3 years based on 10% of any payout to participants under the plan developed with customer(s) resulting from the agency agreement. The warrants to be issued are based on the average price of the Company's stock for the 10-day period prior to the issuance of the warrants, less a 20% discount.

The initial 25,000 warrants issued had an exercise price of \$4.96 per share and expired February 17, 2002 without being exercised. They have been valued at \$115,060 using the Black-Scholes model as described earlier and have been reflected as compensation on these financial statements.

Edgar Filing: SUITE 101 COM INC - Form 10QSB

SUITE101.COM, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2002 AND MARCH 31, 2001
 (UNAUDITED)

(EXPRESSED IN U.S. DOLLARS)

8. COMMITMENTS AND SUBSEQUENT EVENTS (CONTINUED)

- (d) During the year ended December 31, 2001, the Company entered into an operating lease for its office space. The lease expires March 31, 2003 and provides for monthly payments commencing May 1, 2001 of \$1,890 plus the Company's proportionate share of operating costs and taxes (currently \$1,036 per month). Under the terms of the lease, the Company has an option to renew the lease for a further period of three years.
- (e) During the period ended March 31, 2002, the Company entered into a services agreement. The agreement provides for monthly payments of \$4,691 until June 30, 2002, but may be renewed on a month-to-month basis under the same terms and conditions.
- (f) During the period ended March 31, 2002, i5ive entered into an option agreement expiring May 15, 2002 under which the optionee may purchase the Website assets of i5ive. To exercise the option, the optionee is required to make the following payments:
 - i) \$155,000 cash, less any option payments made;
 - ii) 26% of the shares of the optionee (a private company);
 - iii) 5% of the issued and outstanding shares of Blue Frogg Enterprises, Inc. another private company.

Under the terms of the agreement, i5ive at closing will pay the optionee \$155,000 less any payments made after March 1, 2002 under the management services agreement referred to in Note 3(b). To March 31, 2002, i5ive had received \$15,000 in option payments. Subsequent to March 31, 2002, an additional \$30,000 in option payments have been received. These option payments are non-refundable.

9. COMPREHENSIVE INCOME (LOSS)

| | MARCH 31, 2002 | MARCH 31, 2001 |
|--|-------------------|-------------------|
| | ----- | ----- |
| Net loss as reported | \$(863,402) | \$(423,467) |
| Add (deduct) | | |
| Foreign currency translation adjustments | (219) | (7,652) |
| | ----- | ----- |
| Comprehensive Income (Loss) | \$(863,621) | \$(431,119) |
| | ===== | ===== |
| Accumulated other comprehensive income | | |

Edgar Filing: SUITE 101 COM INC - Form 10QSB

| | | |
|--|-------------|-------------|
| Foreign currency translation adjustments | | |
| Balance at beginning of period | \$ (87,072) | \$ (61,890) |
| Change during the period | (219) | (7,652) |
| | ----- | ----- |
| Balance at end of period | \$ (87,291) | \$ (69,542) |
| | ===== | ===== |

14

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

GENERAL

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the more detailed information including our Financial Statements and the Notes thereto included in our Annual Report on Form 10-KSB for the year ended December 31, 2001. This Quarterly Report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that may cause or contribute to such differences include the Risk Factors set forth below as well as the "Risk Factors" contained in our Annual Report. See "Cautionary Statement for Purposes of the 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995" herein.

A COMPARISON OF OUR OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND THE THREE MONTHS ENDED MARCH 31, 2001

During the three months ended March 31, 2002, our sales were \$6,658 compared with sales of \$262 during the three months ended March 31, 2001. Sales during the three month period ended March 31, 2002 were primarily attributable to revenues generated from two service contracts that we entered into with Barnes&Noble.com to provide introductions for a series of e-books and to provide proofreading services for the related digitized books. During the three month period ended March 31, 2001, the \$262 in sales were primarily attributable to software licensing revenues of i5ive communications inc. (i5ive), our wholly-owned subsidiary. These licenses have expired and consequently, this source of revenue has ceased.

General and administrative expenses were \$862,207 during the three months ended March 31, 2002 compared with \$402,574 during the three months ended March 31, 2001. This increase was primarily the result of severance costs paid to our employees and independent contractors upon their termination from the Company during this quarter, which was offset to a limited extent by the savings realized by us from the change in our compensation arrangements with our contributing editors - effective January 1, 2002 we are no longer paying for articles posted to our web site by our contributing editors. Marketing expenses were \$16,409 during the three months ended March 31, 2002 compared with \$94,585 during the three-months ended March 31, 2001. This decrease was primarily due to the cessation of all our marketing activities focused at promoting our web site activities.

Our Loss From Operations was \$875,521 during the three-month period ended March 31, 2002 compared with \$496,897 during the three-month period ended March 31, 2001. The increase in our Loss From Operations during the three-month period ended March 31, 2002 compared with the three-month period ended March 31, 2001 was the result of the increase in our general and administrative expenses.

Other income was \$12,119 during the three-month period ended March 31, 2002 compared with \$73,430 during the three-month period ended March 31, 2001. Other income in both periods was attributable to interest earned on bank balances, the decline in the interest earned during these comparative three-month periods results from the decline in bank cash balances carried through these periods.

Our Net Loss was \$863,402 during the three-month period ended March 31, 2002 compared with \$423,467 during the three-month period ended March 31, 2001. The increase in our Net Loss during this three-month period ended March 31, 2002 compared with the three-month period ended March 31, 2001 was the result of the increase in our general and administrative expenditures and a decrease in our other income.

LIQUIDITY AND CAPITAL RESOURCES

The report of our independent auditors on their audit of our financial statements as of December 31, 2001 contains an explanatory paragraph that describes an uncertainty as to our ability to continue as a going concern due to our recurring losses. At March 31, 2002, our cash balance was \$3,091,654. We believe these cash resources will be sufficient to meet our ongoing financial commitments through December 31, 2002. Currently, we had no source of material revenues.

During the first quarter of 2002 our cash balances decreased by \$957,976 of which approximately \$520,000 represents severance costs paid to our employees and independent contractors upon their termination from the Company and approximately \$176,000 was a reduction in accounts payable. We estimate our ongoing monthly cash outflow will amount to approximately \$40,000, which sum includes our monthly payment of approximately \$26,000 under the terms of the management services agreement. That agreement can be terminated on ten days written notice.

In December 2001, we announced that our Board of Directors was engaged in a review of our activities with a view to the possible redirection of our operations in an effort to enhance and maximize shareholder values. Thereafter, in a series of steps, we reduced our staff to one employee and revised our monthly compensation arrangements with our Contributing Editors by terminating the payment of the compensation to Contributing Editors. The changes we made in our staffing and compensation arrangements we believe were appropriate in the light of our limited revenues and enhance our ability to enter into a business combination or other restructuring transaction by reducing current levels of overhead. We believe that these revised compensation arrangements are in line with current practices of other Internet communities.

On February 14, 2002, effective January 31, 2002, we entered into an agreement with Creative Marketeam Canada Ltd., a corporation wholly owned by Douglas Loblaw, our former chief operating officer and, since February 25, 2002, a Director of our company, to provide continuing management and operating services, at Marketeam's expense, for the day-to-day operations of the Suite101 Web site, known as Suite101.com. Subsequently, on February 25, 2002, Mr. Loblaw was elected a Director of our Company. In consideration of the services performed by Marketeam, we pay Marketeam a fee of \$26,000 per month, plus an amount equal to our receipts from our contracts with Barnes&Noble.com.

Our current business plan is to utilize our available cash and other resources, including possibly, shares of our Common Stock, to redirect our

Edgar Filing: SUITE 101 COM INC - Form 10QSB

activities out of the operation and maintenance of a Web-based community into other areas of business. We believe that these future activities will be unrelated to the operation of an Internet Web site. As of May 9, 2002, there are no definitive agreements or agreements in principal relating to the acquisition of any other business activities by us and we are unable to state the nature of the business activities that may be undertaken in the future. It is expected that the redirection of our business activities will involve us in a business combination or other material transaction. Until we complete a transaction resulting in a redirection of our business activities, we expect to continue to incur expenses without any material revenues. In addition, we may incur reductions in the carrying value of our fixed assets in connection with our efforts to redirect our activities.

As a result of our limited operating history and our efforts to redirect our activities, we have limited meaningful historical financial data upon which to base planned operating expenses. Accordingly, our anticipated expense levels in the future are based in part on our estimates. We expect that these expense levels will become, to a large extent, fixed. Revenues and operating results generally will depend on our ability to redirect our business activities into revenue-producing operations.

We may seek to raise additional funds in order to fund the acquisition of revenue-producing operations. There can be no assurance that any additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or not available on acceptable terms, we may not be able to fund our efforts to redirect our activities. Any such inability could have a material adverse effect on future success. Additional funds raised through the issuance of equity or convertible debt securities, will result in reducing the percentage ownership of our stockholders and, stockholders may experience additional dilution and such securities may have rights, preferences or privileges senior to those of the rights of our Common Stock.

Effective March 15, 2002, i5ive Communications Inc., our wholly owned subsidiary, entered into an option agreement with Double B Holdings, LLC, a privately-owned non-affiliated entity organized for the purpose of acquiring the option. The option grants Double B the right to purchase the website assets owned and operated by i5ive. These assets, which include primarily property, plant and equipment, had a book value of \$120,000, as of December 31, 2001, after accumulated amortization of \$127,000. During the three years ended December 31, 2001, these assets produced revenues of \$1,925, \$1,620 and \$40,067, respectively. During the three years ended December 31, 2001, the Company had other income, net, which was primarily interest income, of \$146,000, \$378,000 and \$188,000, respectively. The terms of the option agreement provide that Double B, in consideration of a non-refundable payment of \$15,000, has the right to purchase the assets for a period of thirty days and, in consideration of a further non-refundable payment of an additional \$30,000, has the right to purchase the assets for an additional thirty days. Double B exercised its right to extend the option. The option, unless further extended, will expire on May 14, 2002.

The purchase price for the assets under the option agreement is \$155,000 less the non-refundable payments which are applied to the purchase price, plus a 26% interest in Double B and a 5% common stock interest held by Double B in Blue Frogg Enterprises, Inc., a privately-owned company controlled by the owners of Double B. In the event the option is exercised, i5ive is required to pay at the closing to

Edgar Filing: SUITE 101 COM INC - Form 10QSB

Marketeam Canada, Ltd. from March 1, 2002 through the closing. Double B is assigned and assumes at the closing i5ive's rights and obligations under various vendor and supplier contracts and leases. The option agreement contains representations and warranties of the parties and covenants relating to the fulfillment of the transaction and confidentiality. The closing under the option is subject to the fulfillment of certain closing conditions and the absence of any court, governmental or regulatory authority action prohibiting, restricting or making illegal the consummation of the transaction and no such action shall have been commenced or threatened by any person.

i5ive and Double B intend to enter into a separate agreement that will establish a value for i5ive's interest in Double B in the event Double B is acquired by Blue Frogg. The definitive terms of that agreement are to be negotiated; however, the value of Double B is to be based on the higher of four times the EBITDA of Double B or \$350,000, with i5ive entitled to receive 26% of that sum in the event of the acquisition of Double B by Blue Frogg.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

With the exception of historical matters, the matters discussed above and elsewhere in this Quarterly Report are "forward-looking statements" as defined under the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. We intend that such forward-looking statements be covered by the safe harbor provisions for forward-looking statements contained in that act and we are including this statement for purposes of complying with these safe harbor provisions. The forward-looking statements discussed in this Quarterly Report appear in various places including: "Item 2 - Management's Discussion and Analysis or Plan of Operations," "Liquidity and Capital Resources," as well as in "Risk Factors." We caution readers that the risk factors described in our Annual Report on Form 10-KSB, as well as those described elsewhere in this Quarterly Report, or in our other filings with the Commission, in some cases have affected, and in the future could affect our actual results, could cause our actual results during 2002, 2003 and beyond, to differ materially from those expressed in any forward-looking statements, and could cause our development and the development of our business plans to be different than expressed in those statements. We cannot assure you that our assumptions in this regard or our views as to the viability of our business plans will prove to be accurate. Likewise, we cannot assure you that we will be successful in acquiring any commercial activities. Our ability to realize revenues cannot be assured. If our assumptions are incorrect or if our plans fail to materialize, we may be unsuccessful in developing as a viable business enterprise. Under such circumstance your investment will be in jeopardy. There can be no assurance that our estimates as to our current rates of cash expenditures will prove to be accurate or that other factors may not result in these estimates proving to be incorrect. Our inability to meet our goals and objectives or the consequences to us from adverse developments in general economic or capital market conditions could have a material adverse effect on us. We caution you that various risk factors accompany those forward looking statements and are described, among other places, under the caption "Risk Factors" herein, beginning below. They are also described in our Annual Report on Form 10-KSB, and our Current Reports on Form 8-K. These risk factors could cause our operating results, financial condition and ability to fulfill our plans to differ materially from those expressed in any forward-looking statements made in our Annual Report and could adversely affect our financial condition and our ability to pursue our business strategy and plans.

Edgar Filing: SUITE 101 COM INC - Form 10QSB

An investment in shares of our Common Stock involves a high degree of risk. You should consider the following factors, in addition to the other information contained in this quarterly report, in evaluating our business and proposed activities before you purchase any shares of our common stock. You should also see the "Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1996" regarding risks and uncertainties relating to us and to forward looking statements in this quarterly report.

No Material Operations or Revenues. We have no current material operations or source of revenue. We will, in all likelihood, sustain continuing operating expenses maintaining our current activities and seeking to enter into a transaction without corresponding revenues at least until the consummation of a business acquisition. This can be expected to result in us incurring ongoing net operating losses and an outflow of our cash that could continue until we can consummate a business acquisition. There can be no assurance that we can identify a suitable business opportunity and consummate a business acquisition or that any transaction we consummate will be on favorable terms or result in profitable operations. We are unable to predict when any such transaction may be completed.

We May Not Be Successful in Entering Into Agreements In Order to Pursue Our Business Plans. We have no arrangement, agreement or understanding with respect to engaging in a merger with, joint venture with or acquisition of, a private or public entity or any interest in such an entity. No assurances can be given that we will successfully identify and evaluate a suitable business opportunity or that we will conclude a business acquisition. We cannot guarantee that we will be able to negotiate any business transactions on favorable terms or be successful in redirecting our operations.

Possible Future Dilution As A Result Of Business Transaction. Our business plan is based upon effectuating a business acquisition or other transaction. Any such acquisition transaction may result in us issuing securities as part of the transaction. The issuance of previously authorized and un-issued common shares could result in substantial dilution to our existing stockholders which could possibly result in a change in control or management of our company. There can be no assurance that an acquisition can be completed.

Issuance Of Additional Shares. Our Certificate of Incorporation currently authorizes our Board of Directors to issue up to 40,000,000 shares of Common Stock and 1,000,000 shares of Preferred Stock, of which, as of May 9, 2002, 13,249,519 shares of Common Stock are issued and outstanding and no shares of Preferred Stock are outstanding. The 26,750,481 shares of Common Stock and 1,000,000 shares of Preferred Stock that are authorized but are not issued or outstanding are able to be issued by action of our Board of Directors in a transaction resulting in the redirection of our activities without any requirement of further action being taken by our stockholders to authorize the issuance of the shares or to approve the transaction or the redirected business activities. Any additional issuances of any of our securities will not require the approval of our stockholders and may have the effect of further diluting the equity interest of stockholders.

Proposal to Amend Certificate of Incorporation to Increase Authorized Shares. Our management is submitting a proposal to stockholders to be voted on at our annual meeting of stockholders scheduled to be held on June 11, 2002 to increase the number of shares of common stock we are authorized to issue

under our Certificate of Incorporation from 40,000,000 to 100,000,000 shares. If

Edgar Filing: SUITE 101 COM INC - Form 10QSB

this proposal is approved by stockholders and our Certificate of Incorporation is amended, these shares would be available to be issued by action of our Board of Directors without the necessity for any further approvals or action by our stockholders. The availability of those shares for issuance in a transaction relating to the redirection of our activities could result in additional dilution to our existing stockholders.

Possible Need to Raise Additional Capital. Any transaction we enter into involving the redirection of our activities may require that we raise additional capital which may also involve the issuance of shares of our Common Stock and be dilutive to our existing stockholders.

No Requirement of Stockholder Approval. Any transaction we enter into in redirecting our business activities may be structured on terms whereby the approval of our existing stockholders is not required which would result in our existing stockholders being unable to vote in favor of or against the transaction and the redirection of our business activities.

Any Business We May Possibly Acquire May Never Become Profitable. There can be no assurance that we will enter into an acquisition with or acquire an interest in a business having a significant or successful operating history. Any such business may have a history of losses, limited or no potential for earnings, limited assets, negative net worth or other characteristics that are indicative of development stage companies. There can be no assurance that after any acquisition of a business that the business will be operated so as to develop significant revenues and cash flow and become profitable.

Management May Not Devote a Sufficient Amount of Time to Seeking a Target Business. While seeking a business acquisition, our officers and Directors will devote only a portion of their time to pursuing these activities. As a result, we may expend a considerable period of time identifying and negotiating with an acquisition candidate. This extended period of time may result in continuing losses to us and an outflow of our cash.

Dependence On Part-Time Management. Currently, we have no fulltime employees. Our officers and Directors devote only a portion of their time to our activities. It is our intention to continue to limit our employees until such time as we find a suitable business opportunity or we complete the acquisition of another business. Therefore, the day-to-day operations of any company or business that is acquired by us will have to be performed by outside management or management of the acquired company. We cannot assure investors that we will be able to obtain experienced and able outside management to run any company or business that we may acquire.

Continued Control by Existing Management. Our Directors retain significant control over our present and future activities and our stockholders and investors may be unable to meaningfully influence the course of our actions. Our existing management is able to control substantially all matters requiring stockholder approval, including nomination and election of directors and approval or rejection of significant corporate transactions. Any transaction we engage in resulting in a redirection of our business activities may be structured so as to not require the approval of our stockholders and, accordingly, our stockholders may have no opportunity to vote on or influence the redirection of our activities. Although management has no intention of engaging in such activities, there is also a risk that the existing management will be viewed as pursuing an agenda which is beneficial to themselves at the expense of other stockholders.

Edgar Filing: SUITE 101 COM INC - Form 10QSB

Price Of Our Common Stock May Be Volatile. Given the relatively minimal public float and trading activity in our securities, there is little likelihood of any active and liquid public trading market developing for our shares. If such a market does develop, the price of the shares may be volatile. Since the shares do not qualify to trade on any exchange or on NASDAQ, if they do actually trade, the only available market will continue to be through the OTC Bulletin Board or in the "pink sheets". It is possible that no active public market with significant liquidity will ever develop. Thus, investors run the risk that investors may never be able to sell their shares.

Possible Government Regulation. Although we are subject to the periodic reporting requirements under the Securities Exchange Act of 1934, as amended, and file annual, quarterly and other reports, management believes it will not be subject to regulation under the Investment Company Act of 1940, as amended (the "Investment Company Act"), since it will not be engaged in the business of investing or trading in securities. If we engage in a business acquisition which results in us holding passive investment interests in a number of entities, we could become subject to regulation under the Investment Company Act. If so, we would be required to register as an investment company and could be expected to incur significant registration and compliance costs. We have obtained no formal determination from the Securities and Exchange Commission (the "SEC" or "Commission") or any opinion of counsel as to our status under the Investment Company Act. A violation of the Act could subject us to material adverse consequences.

Our Shares Are Subject To Penny Stock Reform Act Of 1990. Our securities are subject to certain rules and regulations promulgated by the Commission pursuant to the U.S. Securities Enforcement Remedies and Penny Stock Reform Act of 1990 (the "Penny Stock Rules"). Such rules and regulations impose strict sales practice requirements on broker-dealers who sell such securities to persons other than established customers and certain "accredited investors." For transactions covered by the Penny Stock Rules, a broker-dealer must make a special suitability determination for the purchaser and must have received the purchaser's written consent for the transaction prior to sale. Consequently, such rule may affect the ability of broker-dealers to sell our securities and may affect investors' abilities to sell any shares they acquire.

The Penny Stock Rules generally define a "penny stock" to be any security not listed on an exchange or not authorized for quotation on the Nasdaq Stock Market and has a market price (as defined by the rules) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transactions by broker-dealers involving a penny stock (unless exempt), the rules require delivery, prior to a transaction in a penny stock, of a risk disclosure document relating to the market for penny stocks. Disclosure is also required to be made about compensation payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stocks.

Limited Market for Common Stock. There has been a very limited market for our Common Stock and the market price of our shares has been subject to material fluctuation. Accordingly, although quotations for shares of our Common Stock have been, and continue to be, published on the OTC Bulletin Board and the "pink sheets" published by the National Quotation Bureau, Inc., these quotations, in the light of our operating history, continuing losses and financial condition, are not

Edgar Filing: SUITE 101 COM INC - Form 10QSB

without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

Control by Directors, Executive Officers, and Principal Stockholders. As of May 1, 2002, our Directors, executive officers, and stockholders who own beneficially 5% or more of our Common Stock, and their respective affiliates, in the aggregate, beneficially owned (including shares that the he or she has the right to acquire the beneficial ownership within 60 days following May 1, 2002) approximately 3,539,688 shares or 25.27% of our outstanding Common Stock. As a result, these stockholders possess significant influence over us, giving them the ability, among other things, to elect a majority of our Board of Directors and approve significant corporate transactions. Such share ownership and control may also have the effect of delaying or preventing a change in control of us, impeding a merger, consolidation, takeover or other business combination involving us, or discourage a potential acquiror from making a tender offer or otherwise attempting to obtain control of us which could have a material adverse effect on the market price of our Common Stock.

No Active Prior Public Market For Common Stock; Possible Volatility Of Stock Price. Since December 30, 1998, our Common Stock has been quoted on the OTC Bulletin Board. There can be no assurance that an active trading market for our Common Stock will be sustained or that the market price of our Common Stock will not decline based upon market or other conditions. The market price may bear no relationship to our revenues, earnings, assets or potential and may not be indicative of our future business performance. The trading price of our Common Stock has been and can be expected to be subject to wide fluctuations in response to variations in our quarterly results of operations, delays and obstacles we encounter in redirecting our business activities, the gain or loss of significant strategic relationships, unanticipated delays in our development, other matters discussed elsewhere in this annual report and other events or factors, many of which are beyond our control.

In addition, the stock market in general has experienced extreme price and volume fluctuations which have affected the market price for many companies which have been unrelated to the operating performance of these companies. These market fluctuations, as well as general economic, political and market conditions, may have a material adverse effect on the market price of our Common Stock.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such companies. Such litigation, if instituted, and irrespective of the outcome of such litigation, could result in substantial costs and a diversion of management's attention and resources and have a material adverse effect on our business, results of operations and financial condition.

22

OTHER RISKS WE FACE

CONTROL BY DIRECTORS, EXECUTIVE OFFICERS AND PERSONS WHO OWN BENEFICIALLY 5% OR MORE OF OUR COMMON STOCK

As of May 1, 2002, our Directors, Executive Officers and persons known by us to own beneficially 5% or more of our Common Stock, and their respective affiliates, in the aggregate, beneficially owned (including shares that they, he or she has the right to acquire the beneficial ownership within 60 days following May 1, 2002) approximately 3,539,588 shares or 25.27% of our outstanding Common Stock. As a result, these stockholders possess significant influence over us, giving them the ability, among other things, to elect a

Edgar Filing: SUITE 101 COM INC - Form 10QSB

majority of our Board of Directors and approve significant corporate transactions. Such share ownership and control may also have the effect of delaying or preventing a change in control of us, impeding a merger, consolidation, takeover or other business combination involving us, or discourage a potential acquiror from making a tender offer or otherwise attempting to obtain control of us which could have a material adverse effect on the market price of our Common Stock.

NO ACTIVE PRIOR PUBLIC MARKET FOR COMMON STOCK; POSSIBLE VOLATILITY OF STOCK PRICE

Since December 30, 1998, our Common Stock has been quoted on the OTC Bulletin Board. There can be no assurance that an active trading market for our Common Stock will be sustained or that the market price of our Common Stock will not decline based upon market or other conditions. The market price may bear no relationship to our revenues, earnings, assets or potential and may not be indicative of our future business performance. The trading price of our Common Stock has been and can be expected to be subject to wide fluctuations in response to variations in our quarterly results of operations, the gain or loss of significant strategic relationships, unanticipated delays in our development, changes in estimates by analysts, announcements of technological innovations or new solutions by us or our competitors, general conditions in the technology and Internet sectors and in Internet-related industries, other matters discussed elsewhere in this annual report and other events or factors, many of which are beyond our control.

In addition, the stock market in general and the technology and Internet sectors in particular have experienced extreme price and volume fluctuations which have affected the market price for many companies in industries similar or related to us and which have been unrelated to the operating performance of these companies. These market fluctuations, as well as general economic, political and market conditions, may have a material adverse effect on the market price of our Common Stock.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such companies. Such litigation, if instituted, and irrespective of the outcome of such litigation, could result in substantial costs and a diversion of management's attention and resources and have a material adverse effect on our business, results of operations and financial condition.

23

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

During the quarter ended March 31, 2002, we filed the following Current Reports on Form 8-K:

- (a) Current Report on Form 8-K for event dated January 8, 2002. Item 7.
- (b) Current Report on Form 8-K for event dated February 15, 2002. Items 5 and 7.

Edgar Filing: SUITE 101 COM INC - Form 10QSB

- (c) Current Report on Form 8-K for event dated February 25, 2002. Item 7.
- (d) Current Report on Form 8-K for event dated March 15, 2002. Items 5 and 7.

SIGNATURES

Pursuant to the requirements 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.

SUITE101.COM, INC.

(Registrant)

Date: May 14, 2002

/s/Mitchell G. Blumberg

Mitchell G. Blumberg
President and Chief Executive Officer
(Principal Executive Officer, and Director)

/s/Cara M. Williams

Cara M. Williams
Vice President - Finance
(Principal Financial and Accounting Officer)