

AI SOFTWARE INC
 Form 10QSB
 February 18, 2003

FORM 10-QSB

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly report period ended **December 31, 2002**

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 **333-69176**

A.I. SOFTWARE INC.	
(Exact name of small business issuer specified in its charter)	
NEVADA	98-0351734
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
SUITE 1208- 1030 WEST GEORGIA STREET, VANCOUVER, BRITISH COLUMBIA, CANADA V6E 2Y3	
(Address of Principal Executive Offices)	
(604) 662-7900	
Issuer's telephone number, including area code	
N/A	
(Former name, former address and former fiscal year, if changed since last report)	

Check whether the issuer:

1. 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. has been subject to such filing requirements for the past 90 days. Yes No

Applicable only to corporate issuers:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of December 31, 2002 there were 3,509,500 common shares outstanding.

A.I. SOFTWARE, INC.
INDEX

PART I - FINANCIAL INFORMATION	Page
Item 1 - Financial Statements	
Balance Sheet as of December 31, 2002 (unaudited)	4
Statements of Operations for the cumulative period from incorporation to December 31, 2002, for the three month period ended December 31, 2002, for the three month period ended December 31, 2001, for the six month period ended December 31, 2002, and for the six month period ended December 31, 2001 (unaudited)	5
Statements of Stockholder Deficiency as of December 31, 2002 (unaudited)	6
Statements of Cash Flow for the cumulative period ended December 31, 2002, for the six month period ended December 31, 2002 and for the six month period ended December 31, 2001 (unaudited)	7
Notes to Financial Statements (unaudited)	8-10
Item 2 - Management's Discussion And Analysis Of Financial Condition And Results Of Operations	10-11
PART II OTHER INFORMATION	11
Item 1 Legal Proceedings	11
Item 2 Change in Securities and Use of Proceeds	11
Item 3 Defaults Upon Senior Securities	11
Item 4 Submission of Matters of a Vote of Security Holders	11
	11

Item 5 Other Information	
Item 6 Exhibits and Other Reports on Form 8-K	11
FINANCIAL DATA SCHEDULE	13

SAFE HARBOR STATEMENT

This quarterly report on Form 10-QSB includes forward-looking statements. All statements, other than statements of historical fact made in this Quarterly Report on Form 10-QSB are forward-looking. In particular, the statements herein regarding industry prospects and future results of operation or financial position are forward-looking statements. Forward-looking statements reflect management's current expectations based on assumptions believed to be reasonable and are inherently uncertain as they are subject to various known and unknown risks, uncertainties and contingencies, many of which are beyond the control of A.I. Software, Inc. The Company's actual results may differ significantly from management's expectations.

In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of such terms or other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance, or achievements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements. We do not intend to update any of the forward-looking statements after the date of this quarterly report to conform them to actual results.

The following financial information and discussion and analysis should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended June 30, 2002. The discussion of results, causes and trends should not be construed to imply that such results, causes or trends will necessarily continue in the future.

Item 1. Financial Statements December 31, 2002

AI SOFTWARE INC.

(A Development Stage Company)

BALANCE SHEETS

(Expressed in U.S. dollars)

	December 31, 2002	June 30, 2002
	(Unaudited)	

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ASSETS			
Current			
Cash		<u>\$170</u>	<u>\$ 961</u>
Total current assets		170	961
Deferred offering costs (Note 3)		<u>-</u>	<u>15,575</u>
Total assets		\$170	\$ 16,536
LIABILITIES AND STOCKHOLDERS' DEFICIENCY			
Current			
Accounts payable and accrued liabilities		\$ 18,740	\$ 10,294
Due to related parties (Note 4)		<u>-</u>	<u>81,645</u>
Total current liabilities		<u>18,740</u>	<u>91,939</u>
Stockholders' deficiency			
Capital stock (Note 5)			
Authorized			
100,000,000	common shares with a par value of \$0.00001		
Issued and outstanding			
3,509,500	common shares (June 30, 2002 2,500,000)	35	25
Additional paid-in capital		87,840	1,475
Deficit accumulated during the development stage		<u>(106,445)</u>	<u>(77,903)</u>
))
Total stockholders' deficiency		<u>(18,570)</u>	<u>(75,403)</u>
))
Total liabilities and stockholders' deficiency		\$170	\$ 16,536

Nature of operations

(Note 1)

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

AI SOFTWARE INC.

(A Development Stage Company)

STATEMENTS OF OPERATIONS

(Expressed in U.S. dollars)

(Unaudited)

	Cumulative Amounts From Date of Incorporation on May 11, 2000 to December 31, 2002	Three Month Period Ended December 31, 2002	Three Month Period Ended December 31, 2001	Six Month Period Ended December 31, 2002	Six Month Period Ended December 31, 2001
EXPENSES					
Accounting	\$I2,000	\$J,000	\$ -	\$L,000	\$ -
Development costs	81,000	I3,500	I3,500	J7,000	J7,000
Interest expense	M,865	J4	O78	J,559	I,095
Legal	L,240	I,946	-	I,946	-
Office and miscellaneous	N,100	I,053	J,683	I,797	J,683
Rent	<u>9,000</u>	<u>I,500</u>	<u>I,500</u>	<u>K,000</u>	<u>K,000</u>

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Loss before other item	(118,205)	(20,023)	(18,461)	(40,302)	(33,778)
OTHER ITEM					
Gain on settlement of debt	<u>11,760</u>	<u>11,760</u>	-	<u>11,760</u>	-
Loss for the period	\$ (106,445)	\$ (8,263)	\$ (18,461)	\$ (28,542)	\$ (33,778)
Basic and diluted loss per common share		\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding		3,344,908	2,500,000	2,922,454	2,500,000

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

AI SOFTWARE INC.

(A Development Stage Company)

STATEMENT OF STOCKHOLDERS' DEFICIENCY

(Expressed in U.S. dollars)

(Unaudited)

	Common Stock		Additional Paid in Capital	Share Subscriptions Received in Advance	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
	Shares	Amount				
Balance, May 11, 2001	-	\$ -	\$ -	\$ -	\$ -	\$ -
Subscription in capital stock (Note 5)	<u>2,500,000</u>	<u>25</u>	<u>2,475</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Balance, June 30, 2001	2,500,000	25	2,475	-	-	2,500

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Loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,903)</u>	<u>(77,903)</u>
Balance, June 30, 2002	2,500,000	25	2,475	-	(77,903)	(75,403)
Share subscriptions received in advance	-	-	-	100,950	-	100,950
I s s u a n c e o f common stock	1,009,500	10	100,940	(100,950)	-	-
Share issuance costs	-	-	(15,575)	-	-	(15,575)
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,542)</u>	<u>(28,542)</u>
Balance, December 31, 2002	3,509,500	\$ 35	\$ 87,840	\$ -	\$ (106,445)	\$ (18,570)

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

AI SOFTWARE INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS

(Expressed in U.S. dollars)

(Unaudited)

	Cumulative Amounts From Date of Incorporation	Six Month	Six Month
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	on May 11, 2001 to December 31, 2002	Period Ended December 31, 2002	Period Ended December 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	\$ (106,445)	\$ (28,542)	\$ (33,778)
Item not affecting cash:			
Gain on settlement of debt	(11,760)	(11,760)	-
Change in non-cash working capital items:			
Increase in accounts payable and accrued liabilities	18,740	8,446	-
Increase in accrued interest to related parties	<u>M,865</u>	<u>J,415</u>	<u>I,060</u>
Net cash used in operating activities	<u>(93,600)</u>)	<u>(29,441)</u>)	<u>(32,718)</u>)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of subscription in capital stock	J,500	-	J,500
Proceeds from issuance of capital stock	100,950	100,950	-
Deferred offering costs	(15,575)	-	(15,575)
Proceeds from (repayments of) notes and loans payable to related parties	<u>M,895</u>	<u>(72,300)</u>)	<u>48,195</u>
Net cash provided by financing activities	<u>93,770</u>	<u>28,650</u>	<u>35,120</u>
Change in cash during the period	I70	(791)	J,402
Cash, beginning of the period	<u>-</u>	<u>961</u>	<u>-</u>
Cash, end of the period	\$I70	\$I70	\$J,402
Supplemental disclosure with respect to cash flows:			
Cash paid for income taxes	\$ -	\$ -	\$ -

Cash paid for interest	-	-	-
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The accompanying notes are an integral part of these financial statements.

AI SOFTWARE INC.

(A Development Stage Company)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in U.S. dollars)

(Unaudited)

DECEMBER 31, 2002

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1. NATURE OF OPERATIONS

The Company was incorporated on May 11, 2001 under the laws of Nevada in the United States of America and is considered a development stage company as it has not generated significant revenues from operations. The Company is pursuing opportunities in the development of artificial intelligence software.

In the opinion of management, the accompanying financial statements contain all adjustments necessary (consisting only of normal recurring accruals) to present fairly the financial information contained therein. These statements do not include all disclosures required by generally accepted accounting principles in the United States of America and should be read in conjunction with the audited financial statements of the Company for the year ended June 30, 2002. The results of operations for the period ended December 31, 2002 are not necessarily indicative of the results to be expected for the year ending June 30, 2003.

2. GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has no current source of revenue. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern. The Company intends to obtain working capital in the short term by borrowing funds from directors. The Company's ability to continue as a going concern is dependent on additional cash financings, and, ultimately, upon achieving profitable operations through the development of its artificial intelligence software. The financial statements do not include

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any adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

	December 31, 2002	June 30, 2002
Deficit accumulated during the development stage	\$ (106,445)	\$ (77,903)
Working capital (deficiency)	(18,570)	(90,978)

3. DEFERRED OFFERING COSTS

Deferred offering costs are related to the Company's offering of up to 2,000,000 common shares at \$0.10 per share. These amounts have been deducted from the total offering proceeds as a reduction of additional paid in capital.

4. DUE TO RELATED PARTIES

	December 31, 2002	June 30, 2002
Notes payable on demand to a director of the Company, unsecured, bearing interest at a rate of 10% per annum. Included in this amount is accrued interest of \$Nil (June 30, 2002 - \$3,450).	\$ -	\$ 51,645
Loans payable to directors of the Company, unsecured, non-interest bearing, with no fixed terms of repayment.	<u>-</u>	<u>30,000</u>

	\$ -	\$ 81,645

During the six-month period ending December 31, 2002, the Company repaid \$72,300 and forgave \$11,760 of the amounts due to related parties.

5. CAPITAL STOCK

The Company's authorized capital stock consists of 100,000,000 shares of common stock, with a par value of \$0.00001 per share. All shares of common stock have equal voting rights and, when validly issued and outstanding, are entitled to one non-cumulative vote per share in all matters to be voted upon by stockholders. The shares of common stock have no pre-emptive, subscription, conversion or redemption rights and may be issued only as fully paid and non-assessable shares. Holders of the common stock are entitled to equal rateable rights to dividends and distributions with respect to the common stock, as may be declared by the Board of Directors out of funds legally available.

On July 9, 2001, the Company issued 2,500,000 shares of common stock for stock subscriptions receivable in the amount of \$2,500, which was received on July 27, 2001.

On October 14, 2002, the Company issued 1,009,500 shares of common stock at a price of \$0.01 per common share for share subscriptions received in advance of \$100,950.

6. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts payable and accrued liabilities. Unless otherwise noted, 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 approximate their carrying values, unless otherwise noted.

7. SEGMENTED INFORMATION

The Company's operations will be conducted in one industry segment that being the development of artificial intelligence software in the United States of America.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S FINANCIAL STATEMENTS AND THE NOTES THERETO CONTAINED ELSEWHERE IN THIS FILING.

Financial Condition, Liquidity and Capital Resources

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Since inception on May 11, 2001, we have been engaged in software development. Since July 2001, we have been developing an artificial intelligence software called "Randomix." Our principal capital resources have been acquired through issuance of common stock and from shareholder loans.

On July 20, 2002 our Form SB-2 registration statement was declared effective. We closed the offering on September 20, 2002, after raising a total of \$100,950. All 1,009,500 shares of our common stock sold under the offering price at a price of ten cents per share, were issued as of October 14, 2002. As of that date, we have 3,509,500 shares of common stock issued and outstanding.

At December 31, 2002, we had a deficit of working capital of \$18,570, compared to a deficit of working capital of \$90,978 at June 30, 2002.

At December 31, 2002, our total assets of \$170 consisted of solely of cash. This compares with our assets at June 30, 2002 of \$16,536, consisting of cash of \$961 and deferred offering costs of \$15,575.

At December 31, 2002, our total current liabilities decreased to \$18,740 from \$91,939 at June 30, 2002, primarily reflecting repayment of loans to related parties of \$81,645.

We have not had revenues from inception. Although there may be insufficient capital to complete the development and marketing of our initial software program, we expect to survive with funding from sales of securities and, as necessary or from shareholder loans.

We require additional debt or equity financing to satisfy our ongoing cash requirements. Until we are in a position to obtain financing, we will not be conducting ongoing product research and development.

We do not expect to purchase or sell any significant equipment. We do not expect any significant changes in the number of our employees. Our company has no long-term debt and does not regard long-term borrowing as a good, prospective source of financing.

Results of Operations

Our company posted losses of \$(8,263) for the three months ending December 31, 2002, compared with the losses of \$(18,461) for the three months ending December, 2001. From inception to December 31, 2002 we had losses in the amount of \$(106,445). The principal component of the losses is software development expenditures.

Operating expenses for the three months ending December 31, 2002 were \$20,023, compared with operating expenses of \$18,461 for the three months ended December 31, 2001. Operating expenses from inception to December 31, 2002 were \$106,445.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

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On July 20, 2002 our Form SB-2 registration statement was declared effective. We closed the offering on September 20, 2002, after raising a total of \$100,950. All 1,009,500 shares of our common stock sold under the offering price at a price of ten cents per share, were issued as of October 14, 2002. As of that date, we have 3,509,500 shares of common stock issued and outstanding.

On February 11, 2003 a former director and officer, John Carl Guterres, transferred 1,250,000 common shares, being all of his shares in the company, to a current director Emmanuel Aligizakis. The transfer occurred pursuant to an exemption from registration.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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) Exhibits

99.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. 1350

99.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. 1350

(b) Reports on Form 8-K

We have filed one (1) Form 8-Ks since inception.

On August 16, 2002 we filed a Form 8-K in respect of the resignation of one of our directors and officers, John Carl Guterres, effective August 12, 2002. Mr. Guterres resigned as secretary and director of our company. The Form 8-K filing also described the addition of Emmanuel Aligizakis to our board of directors, and the appointment of Harvey Lawson, our current president and member of our board of directors, to the office of secretary.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

A.I. SOFTWARE INC.

(Registrant)

By: <u>/s/ Harvey M.J. Lawson</u> President, CEO, Treasurer, Principal Accounting Officer, Secretary & Director	By: <u>/s/ Emmanuel Aligizakis</u> Director
Date: <u>February 14, 2002</u>	Date: <u>February 14, 2002</u>

FINANCIAL DATA SCHEDULE

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE DECEMBER 31, 2002 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

Article 5 Registrants (Commercial and Industrial Companies)

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