PALWEB CORP
Form 10QSB
January 14, 2003

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2002

[_] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO ________

Commission file number 000-26331

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

OKLAHOMA	75-2954680
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1607 WEST COMMERCE STREET	DALLAS, TEXAS 75208
(Address of principal executive offices)	(City, State and Zip Code)

(214) 698-8330
(Issuer's telephone number)

(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 Exchange Act during the past 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 [X] 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: NOVEMBER 30, 2002 - 5,155,373

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT
(CHECK ONE):

Yes [_]   No [X]

PALWEB CORPORATION

FORM 10-QSB
FOR THE PERIOD ENDED NOVEMBER 30, 2002

PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PALWEB CORPORATION
CONSOLIDATED BALANCE SHEETS

	November 30, 2002	May 31, 2002
ASSETS		
CURRENT ASSETS:		
Cash	$ 10,109	$ 13,521

Accounts receivable	481,448	43,646
Inventory	354,735	204,446
TOTAL CURRENT ASSETS	846,292	261,613
PROPERTY, PLANT AND EQUIPMENT, at cost	8,210,777	7,453,529
Accumulated depreciation	(624,002)	(509,199)
TOTAL PROPERTY, PLANT AND EQUIPMENT	7,586,775	6,944,330
OTHER ASSETS	153,268	161,396
TOTAL ASSETS	$ 8,586,335	$ 7,367,339
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ 4,242,700	$ 3,777,700
Notes payable - related party	2,150,000	--
Accounts payable and accrued liabilities	1,114,911	570,868
Preferred dividends payable	--	211,440
TOTAL CURRENT LIABILITIES	7,507,611	4,560,008
STOCKHOLDERS' EQUITY:		
Preferred stock, $.0001 par, 20,750,000 shares authorized; 750,000 outstanding	75	75
Common stock, $.0001 par value, 5,000,000,000 authorized, outstanding - 5,155,373 and 4,691,625	516	469
Additional paid-in capital	41,517,969	40,732,767
Deficit	(40,439,836)	(37,925,980)
TOTAL STOCKHOLDERS' EQUITY	1,078,724	2,807,331
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 8,586,335	$ 7,367,339

The accompanying notes are an integral part of this consolidated financial statement.

PALWEB CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Six Months Ended November 30, 2002	2001
SALES	$ 573,929	$ 38,788
COST OF SALES	1,439,863	315,053
GROSS PROFIT (LOSS)	(865,934)	(276,265)
EXPENSES:		
General and administrative expense	752,281	634,518
Impairment of fixed assets	310,875	--

Interest expense	135,833	105,094
TOTAL EXPENSES	1,198,989	739,612
LOSS, BEFORE DISCONTINUED OPERATIONS	(2,064,923)	(1,015,877)
LOSS FROM DISCONTINUED OPERATIONS	--	(104,818)
NET LOSS	$(2,064,923)	$(1,120,695)
LOSS PER COMMON SHARE:		
LOSS BEFORE DISCONTINUED OPERATIONS	$ (0.51)	$ (0.22)
DISCONTINUED OPERATIONS	--	(0.02)
LOSS PER COMMON SHARE	$ (0.51)	$ (0.24)
WEIGHTED AVERAGE SHARES OUTSTANDING	4,934,000	4,644,000

The accompanying notes are an integral part of this consolidated financial statement.

PALWEB CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended November 30,	
	2002	2001
SALES	$ 513,012	$ 26,547
COST OF SALES	813,218	220,414
GROSS PROFIT (LOSS)	(300,206)	(193,867)
EXPENSES:		
General and administrative expense	408,809	292,750
Impairment of fixed assets	310,875	--
Interest expense	78,026	50,941
TOTAL EXPENSES	797,710	343,691
LOSS, BEFORE DISCONTINUED OPERATIONS	(1,097,916)	(537,558)
LOSS FROM DISCONTINUED OPERATIONS	--	(64,093)

NET LOSS	$ (1,097,916)	$ (601,651)
LOSS PER COMMON SHARE:		
LOSS BEFORE DISCONTINUED OPERATIONS	$ (0.26)	$ (0.12)
DISCONTINUED OPERATIONS	--	(0.01)
LOSS PER COMMON SHARE	$ (0.26)	$ (0.13)
WEIGHTED AVERAGE SHARES OUTSTANDING	5,073,000	4,650,000

The accompanying notes are an integral part of this consolidated financial statement.

PALWEB CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended November 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash provided by (used) continuing operations	$(1,585,870)	$ 543,272
Net cash provided by (used) discontinued operations	--	(24,244)
Net cash flow provided by (used) operations	(1,585,870)	519,028
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,068,123)	(4,272,534)
Decrease in loans receivable	--	225,389
Other	7,831	--
Net cash used in investing activities	(1,060,292)	(4,047,145)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	2,650,000	3,721,820
Payments on notes payable	(35,000)	(20,398)
Proceeds from issuance of common stock	27,750	--

Net cash provided by financing activities	2,642,750	3,701,422
NET INCREASE (DECREASE) IN CASH	(3,412)	173,305
CASH, beginning of period	13,521	80,469
CASH, end of period	$ 10,109	$ 253,774
NONCASH ACTIVITIES:		
Issuance of common stock in payment of preferred dividends	$ 660,374	--
Issuance of common stock in payment of liabilities and claims	97,126	--
Conversion of preferred stock to common	--	55
Amortization of deferred income to additional paid-in capital	--	70,704

The accompanying notes are an integral part of this consolidated financial statement.

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PALWEB CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications, which are of a normal recurring nature, necessary to present fairly its financial position as of November 30, 2002, and the results of its operations and its cash flows for the six month and three month periods ended November 30, 2002 and 2001. These consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended May 31, 2002 and the notes thereto included in the Company's Form 10-KSB.

2. PalWeb was classified a development stage company from its inception November 20, 1995 to August 31, 2002. The accumulated deficit during the development stage totaled $39,117,987.

3. The results of operations for the six month and three month periods ended November 30, 2002 are not necessarily indicative of the results to be expected for the full year.

4. The computation of loss per share is computed by dividing the loss available to common stockholders by the weighted average shares outstanding for the periods. For the six month and three month periods ended November 30, 2002, loss available to common stockholders is determined by adding preferred dividends for the periods in the amounts of $448,934 and $225,000, respectively, to the loss from continuing operations and to net loss. There were no preferred dividends for the comparable periods ended November 30, 2001. For the six month periods ended November 30, 2002 and 2001, the average common shares outstanding are 4,934,000 and 4,644,000, respectively. For the three month periods ended November 30, 2002 and 2001, the average common shares outstanding are 5,073,000 and 4,650,000, respectively. Convertible preferred stock is not considered as its effect is antidilutive.

5. PalWeb incurred an expense of $310,875 in fiscal year 2003 to record the impairment of certain production equipment. PalWeb wrote down the cost of its original prototype injection molding machine and related molds to the value of the expected future cash flows.

6. Effective October 17, 2002, PalWeb's Board of Directors authorized the issuance of 15,584 shares of common stock at the then market rate of $1.50 per share to Paul Kruger in payment of $23,376 of accrued interest as of October 31, 2002, on notes payable to Mr. Kruger.

7. Effective October 17, 2002, the Board of Directors authorized dividends on the Series 2001 preferred stock in the amount of $223,934 as of September 30, 2002. Additionally, the Board authorized payment of such preferred dividends in the form of restricted common stock at

the then market rate of $1.50 per share of common stock or 149,289 shares.

8. See "Management Discussion and Analysis, Liquidity and Capital Resources," for discussion regarding the January 10, 2003, refinancing of debt by Paul Kruger through issuance of a $7,000,000 note payable at 3% above prime rate of interest, due June 4, 2004.

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

RESULTS OF OPERATIONS

GENERAL TO ALL PERIODS

The consolidated statements include PalWeb and its wholly-owned subsidiary, Plastic Pallet Production, Inc. ("PPP").

PalWeb has incurred significant losses from operations, and there is no assurance that it will achieve profitability or obtain funds necessary to finance continued operations.

PalWeb's primary business is the manufacturing and selling of plastic pallets, which is referred to herein as continuing operations. During the period ended November 30, 2002, PalWeb has continued to explore the possible marketing of its patent-pending PIPER 600 equipment to third parties; however generating pallet sales remain the company's main focus.

For the month of November 2002, production of plastic pallets was approximately 10,000. PalWeb has a production capacity of approximately 40,000 pallets per month. As of November 30, 2002, PalWeb had 18 full-time and 18 temporary employees. Temporary employees are used to supplement the manufacturing process as necessary.

This production level will be maintained as sales dictate. There is no assurance that PalWeb will receive orders for pallets that will maintain, or justify any significant increase to, PalWeb's current production levels.

For all years presented, PalWeb's effective tax rate is 0%. PalWeb has generated net operating losses since inception, which would normally reflect a tax benefit in the statement of operations and a deferred asset on the balance sheet. However, because of the current uncertainty as to PalWeb's ability to achieve profitability, a valuation reserve has been established that offsets the amount of any tax benefit available for each period presented in the consolidated statement of operations.

PRODUCTS

PalWeb currently has three series of plastic pallets: Hawker, Granada and Tank. The following is a description of each series and its pallet line.

- HAWKER SERIES PalWeb's Hawker Series pallets are all manufactured using the Company's proprietary fire retardant plastic blend.

    - THE HAWKER 4840 PICTURE-FRAME interlocking pallet is the first in the Hawker Series. The Hawker 4840 utilizes a patented inter-locking design featuring CJ2TM fire retardant polymers that are UL 2335 certified. The Hawker 4840 has a static load capacity of 25,000 lbs., and weighs approximately 53 lbs.

- GRANADA SERIES The Granada series of pallets are manufactured using a blend of recycled plastic developed by the Company. The Granada series features a picture frame, nestable, stackable and three-runner pallet.

- o THE GRANADA PICTURE FRAME PALLET utilizes the patented inter-locking design, and has a dynamic load of 5,000 lbs., rackable load of 2,800 lbs., and weighs approximately 47.5 lbs.

- o THE GRANADA STACKABLE PALLET, which consists of the tops of the Granada Picture Frame, has a dynamic load of 5,000 lbs. and a static load of 7,000 lbs. The Granada Stackable weighs approximately 32 lbs.

- o THE GRANADA NESTABLE PALLET features a dynamic load of 5,000 lbs. and a static load of 7,000 lbs. The Granada Nestable weighs approximately 30 lbs.

- o THE GRANADA THREE-RUNNER PALLET with a free-span racking capacity of 1,200 lbs., features a dynamic load of 5,000 lbs. and a static load of 12,000 lbs. The Granada Three-Runner which weighs approximately 41 lbs., utilizes a design that allows for easier handling by electric plastic pallet trucks.

o TANK SERIES PalWeb's Tank Series pallets are manufactured using virgin materials developed by the Company. The Tank Picture Frame Pallet is the first in the Tank Series.

- o The Tank Picture Frame Pallet which features the patented interlocking design, has a static load of 30,000 lbs., and weighs approximately 50 lbs.

The Hawker 4840, Granada Picture Frame, Granada Three- Runner and Tank Picture Frame all successfully passed the CONTAINER TECHNOLOGIES LABORATORY INC., TEST ASTM D1185-98A which included open rack bend, compression, free fall impact, random vibration and incline impact tests.

SALES

PalWeb primary marketing efforts are the development of distributors in key geographic locations and attendance at material handling trade shows.

Sales for the six months ended November 30, 2002, consisted of 230 Hawker 4840 Pallets, 13,807 Granada Picture Frame Pallets, 3,327 Granada Nestable and Stackable Pallets, 4,650 Granada Three-Runner Pallets, and 1,638 Tank Picture Frame Pallets.

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SIX MONTH PERIOD ENDED NOVEMBER 30, 2002, COMPARED TO SIX MONTH PERIOD ENDED NOVEMBER 30, 2001

CONTINUED OPERATIONS

Sales for the six month period ended November 30, 2002 were $573,929 compared to $38,788 in fiscal year 2001. Sales revenues remained insufficient to cover material and operating costs. The increase of $535,141 represents PalWeb's ongoing sales efforts as described above.

Cost of sales was $1,439,863 in fiscal year 2003 compared to $315,053 in fiscal year 2002 for an increase of $1,124,810. The principal reason for this increase is a combination of (1) start-up costs required to operate the new production line and upgrade the original prototype equipment to produce nestable pallets and (2) costs related to the increased production including the addition of another production shift, materials, depreciation and utilities. Start-up costs included training, building modifications to accommodate the production line and reconfiguration of certain molds. PalWeb is currently operating two shifts. Additional personnel may be required if sales increase further.

The general and administrative expenses increased $117,763 from $634,518 for fiscal year 2002 to $752,281 for fiscal year 2003. This increase is primarily due to the addition of personnel and commissions on sales of pallets. In addition, PalWeb incurred $83,750 in settlement of a claim by Roger Landress through payment of $50,000 cash and the issuance of 15,000 shares of common stock. PalWeb intends to pursue indemnification from the Union Group Inc.; however, there is no assurance that PalWeb will be successful in recovering the costs.

During the period ended November 30, 2002, PalWeb wrote down the cost of its original prototype injection molding machine and related molds. An expense of $310,875 was recorded to reduce the cost of this equipment to the expected future cash flows.

Interest expense increased $30,739 from $105,094 in fiscal year 2002 to $135,833 in fiscal year 2003. The debt outstanding at November 30, 2001, was exchanged for preferred stock on January 4, 2002. The debt outstanding at November 30, 2002, was incurred subsequent to January 4, 2002, to fund additions to property and equipment and working capital.

The loss from continuing operations increased $1,049,046 from $1,015,877 for fiscal year 2002 to $2,064,923 for fiscal year 2003.

After deducting the loss from discontinued operations in fiscal year 2002, the net loss is $1,120,695, or $0.24 per share, compared to a net loss of $2,064,923 or $0.51 per share in fiscal year 2003 for an increase of $944,228.

THREE MONTH PERIOD ENDED NOVEMBER 30, 2002, COMPARED TO THREE MONTH PERIOD ENDED NOVEMBER 30, 2001

CONTINUED OPERATIONS

Sales for the three month period ended November 30, 2002 were $513,012 compared to $26,547 in 2001 and sales revenues remained insufficient to cover material and operating costs. The increase was $486,465 and represents PalWeb's ongoing sales efforts as described above.

Cost of sales were $813,218 in fiscal year 2003 compared to $220,414 in fiscal year 2002 for an increase of $592,804. The principal reason is the increased production of pallets including costs associated with the addition of another production shift, materials, depreciation, repairs and maintenance and utilities . PalWeb is currently operating two shifts. Additional personnel may be required if sales increase further.

The general and administrative expenses increased $116,059 from $292,750 for fiscal year 2002 to $408,809 for fiscal year 2003. This increase is primarily due to the addition of personnel and commission on sales of pallets.

During the three month period ended November 30, 2002, PalWeb wrote down the cost of its original prototype injection molding machine and related molds. An expense of $310,875 was recorded to reduce the cost of this equipment to the expected future cash flows.

Interest expense increased $27,085 from $50,941 in fiscal year 2002 to $78,026 in fiscal year 2003. The debt outstanding at November 30, 2001 was exchanged for preferred stock on January 4, 2002. The debt outstanding at November 30, 2002, was incurred subsequent to January 4, 2002 to fund additions to property and equipment and working capital.

The loss from continuing operations increased $560,358 from $537,558 for fiscal year 2002 to $1,097,916 for fiscal year 2003.

After deducting the loss from discontinued operations in fiscal year 2002, the net loss is $601,651, or $0.13 per share, compared to a net loss of $1,097,916 or $0.26 per share in fiscal year 2003 for an increase of $496,265.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

Currently, PalWeb's management projects that the sales of approximately 15,000 pallets per month are necessary to break even. Sales at this level would provide monthly revenues of approximately $450,000 and should provide sufficient cash flow to sustain its operations including about $225,000 in cash operating expenses for labor, recurring overhead and interest and $225,000 for material costs. Although significant sales orders have been executed, there is no assurance that this sales level will be achieved. Until sales reach this level, PalWeb will remain dependent on

outside sources of cash to fund its operations as its sales revenues will be insufficient to meet current liabilities.

PalWeb has had difficulty in obtaining financing from traditional financing sources. Substantially all of the financing that PalWeb has received through November 30, 2002, has been provided by loans from entities controlled by Mr. Paul Kruger, PalWeb's former Chairman and Chief Executive Officer, and from entities affiliated with Warren Kruger, Paul Kruger's brother and current President and a director of PalWeb, and through the offering of 2001 Preferred Stock. In addition, PalWeb's former bank line of credit, which was outstanding on November 30, 2002, was obtained with the personal guarantees of Paul Kruger and Warren Kruger plus a lien on all equipment. The bank line of credit is being replaced with financing provided by Paul Kruger pursuant to an agreement with PalWeb and PPP reached on January 10, 2003. For further discussion of the financing provided by Paul Kruger, see "Paul Kruger Financing" below. There is no assurance that Paul Kruger or Warren Kruger will continue to provide loans or loan guarantees in the future.

OTHER

PalWeb has accumulated a working capital deficit of approximately $6,661,000 at November 30, 2002, which includes $3,492,700 due to The F&M Bank & Trust Company, $2,150,000 due to Paul Kruger, $750,000 mortgage payable to Texas Capital Bank due January 1, 2003 and $1,114,911 in accounts payable and accrued liabilities. The working capital deficit reflects the uncertain financial condition of PalWeb resulting from its inability to obtain long term financing until it can generate sufficient sales to support its operations. There is no assurance that PalWeb will secure such financing.

YORKTOWN FINANCING

Subsequent to November 30, 2002, Yorktown Management & Financial Services, L.L.C. ("Yorktown"), an entity with which Warren Kruger is affiliated, agreed to loan PalWeb and PPP up to $500,000 pursuant to an unsecured promissory note with interest at the fixed rate of nine percent (9%) per annum. The principal and interest due under the note mature on January 4, 2003, with automatic extensions for successive thirty (30) day periods until Yorktown provides notice of its election not to further extend such maturity. Through the filing date of this report, Yorktown had advanced $402,953 under the note. Yorktown has not provided any notice of an election not to extend the maturity of the note.

PAUL KRUGER FINANCING

At November 30, 2002, PalWeb had outstanding bank financing provided by The F&M Bank and Trust Company ("F&M"), and PPP had granted a deed of trust on its building to secure indebtedness to Texas Capital Bank ("Texas Capital"). The F&M financing and the Texas Capital loan are being replaced by a loan provided by Paul Kruger, PalWeb's former Chairman and Chief Executive Officer. The Yorktown financing discussed above is not being repaid pursuant to the loan

from Paul Kruger. Effective January 10, 2003, PalWeb entered into a Loan Agreement with Paul Kruger whereby Mr. Kruger will provide $7,000,000 in financing at 3% above the prime rate of interest due June 4, 2004 (the "Loan Agreement"). The proceeds will be used to pay the outstanding debt to F&M, Texas Capital and to Paul Kruger. Mr. Kruger, along with an officer and two employees associated with Mr. Kruger, and Lyle Miller, a director, will resign their employment and director positions with PalWeb, and:

(1) Those resigning will become fully vested with respect to all PalWeb common stock options previously granted to them and will receive extensions on the exercise of such options for a period of five (5) years from the effective date of the Paul Kruger loan, or until January 10, 2008, at the same exercise price.

(2) Mr. Kruger will receive a non-exclusive distribution agreement to acquire pallets at PPP's F.O.B. price at PPP's plant in Dallas, Texas, less the greatest discounts or concessions made to any of PPP's other distributors for similar kinds and quantities of products. The agreement may be terminated by either party upon thirty (30) days written notice to the other party.

(3) Mr. Kruger will receive an assignment of a $20,000,000 default judgement that PalWeb holds in its favor against Wolfgang Ullrich, a German citizen. PalWeb will have the option to participate pro rata with Paul Kruger in any or all of the judgment proceeds by electing to pay a share of the costs associated with enforcement and collection of the judgment.

(4) Pursuant to the Loan Agreement, to secure the financing provided by Mr. Kruger, PalWeb and PPP have granted to Mr. Kruger a lien on all assets of PPP, and PalWeb has granted to Mr. Kruger a pledge of its stock in PPP.

In addition, in connection with the Loan Agreement, PalWeb and PPP have agreed, among other things, not to engage in the following activities without the written consent of Paul Kruger:

- create, assume or suffer to exist certain liens, charges or encumbrances on the properties encumbered to Mr. Kruger;

- sell, assign, transfer, convey, or encumber their assets;

- create, assume or suffer to exist any indebtedness in excess of

$500,000 in any single year;

o make certain loans, advances or extensions of credit;

o merge, consolidate, enter into certain business combinations, or acquire substantially all of the assets of any other corporation;

o liquidate either corporation;

o engage in any business activities substantially different from or unrelated to their present or proposed business activities;

o declare or pay certain cash or asset dividends; or

o permit intercompany transfers, loans or advances to other companies related to either PalWeb or PPP.

PalWeb continues to be dependent upon Paul Kruger and Warren Kruger to provide and/or secure additional financing and there is no assurance that either will do so. As such, there is no assurance that funding will be available for PalWeb to continue operations.

MATERIAL RISKS

PalWeb has incurred significant losses from operations and there is no assurance that it will achieve profitability or obtain funds to finance continued operations. For other material risks, see PalWeb's Form 10-KSB for the period ended May 31, 2002, which was filed on September 13, 2002.

ITEM 3. CONTROLS AND PROCEDURES

PalWeb's Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures. Such officers have concluded that PalWeb's disclosure controls and procedures are effective to ensure that information required to be disclosed by PalWeb in this report is accumulated and communicated to allow timely decisions regarding required disclosure.

The Certifying Officers also have indicated that there were no significant changes in PalWeb's internal controls or other factors that could significantly affect such controls as of the date of this report.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

No changes during the period.

ITEM 2. CHANGES IN SECURITIES

Effective October 17, 2002, PalWeb authorized the issuance of 15,584 shares of common stock in payment of interest expense accrued through October 31, 2002, in the amount of $23,376 on notes payable to Paul Kruger.

Holders of PalWeb's Series 2001 12% Cumulative Convertible Senior Preferred Stock ("2001

Preferred Stock") are entitled to cumulative dividends of 12% per annum, $1.20 per share, or a total of $900,000. In lieu of the quarterly payment of cash dividends $223,934 due on September 30, 2002, the holders of such 2001 Preferred Stock agreed to accept common stock of PalWeb, and PalWeb's Board of Directors approved the payment of such dividends in the form of 149,289 shares of the authorized but unissued shares of the company's common stock at an effective price of $1.50 per share as of the date such payment of shares was authorized.

PalWeb relied on the exemption set forth in Section 4(2) of the Securities Act of 1933, as amended, in connection with the issuance of the stock and the stock dividend set forth above. All parties listed above are sophisticated persons or entities. All of the purchasers executed investment letters representing that they had sufficient access to information to make the investment and acknowledging the restrictions on transfer of the stock. There was no underwriting, and no commissions were paid to any party upon the issuance of such stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

10.1 Promissory Note in the amount of $500,000.00 executed by PalWeb Corporation and Plastic Pallet Production, Inc., in favor of Yorktown Management & Financial Services, Inc., dated December 4, 2002 (submitted herewith).

10.2 Letter Agreement between PalWeb Corporation, Plastic Pallet Production, Inc., and Paul A. Kruger dated January 10, 2003 (submitted herewith).

10.3 Loan Agreement between PalWeb Corporation, Plastic Pallet Production, Inc., and Paul A. Kruger dated January 10, 2003 (submitted herewith).

10.4 Promissory Note in the amount of $7,000,000.00 executed by PalWeb Corporation and Plastic Pallet Production, Inc., in favor of Paul A. Kruger dated January 10, 2003 (submitted herewith).

10.5 Stock Pledge Agreement executed by PalWeb Corporation in favor of Paul A. Kruger dated January 10, 2003 (submitted herewith).

10.6 Security Agreement between PalWeb Corporation, Plastic Pallet Production, Inc., and Paul A. Kruger dated January 10, 2003 (submitted herewith).

10.7 Deed of Trust executed by Plastic Pallet Production, Inc., in favor of Paul A. Kruger dated January 10, 2003 (submitted herewith).

10.8 Letter Agreement between PalWeb Corporation and Lyle W. Miller dated

January 10, 2003 (amending terms of outstanding stock options)(submitted herewith).

11.1 Computation of Loss per Share is in Note 3 in the Notes to the financial statements.

99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C.ss.1350 (submitted herewith).

99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C.ss.1350 (submitted herewith).

B. Reports on Form 8-K

One report on Form 8-K was filed by PalWeb during the three months ended November 30, 2002, regarding a change in auditors.

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be singed on its behalf by the undersigned, thereunto duly authorized.

PALWEB CORPORATION

(Registrant)

Date: January 14, 2003

/s/ Warren F. Kruger

Warren F. Kruger
President and Chief Executive Officer

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CERTIFICATIONS

I, Warren F. Kruger, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of PalWeb Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 14, 2003

/s/ Warren F. Kruger

Warren F. Kruger
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, William W. Rahhal, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of PalWeb Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 14, 2003

/s/ William W. Rahhal

William W. Rahhal
Chief Financial Officer
(Principal Financial Officer)