CLICKNSETTLE COM INC
Form 10QSB
May 14, 2002

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

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FORM 10-QSB

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

For the quarterly period ended March 31, 2002

|_| TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

Commission File Number: 0-21419

CLICKNSETTLE.COM, INC.
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| Delaware | 23-2753988 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

1010 Northern Boulevard
Great Neck, New York 11021
(Address of Principal Executive Offices)

(516) 829-4343
(Issuer's Telephone Number, Including Area Code)

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

As of May 7, 2002, 1,408,176 shares of common stock of the issuer were outstanding.

Transitional small business disclosure format (check one): Yes __ No X __

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CLICKNSETTLE.COM, INC.
INDEX





clickNsettle.com, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

| | March 3<br>2002<br>(unaudit |
|---|---|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | $ 1,868,6 |

| | |
|---|---|
| Marketable securities | 359,3 |
| Accounts receivable (net of allowance for doubtful accounts of $140,000) | 319,4 |
| Prepaid expenses and other current assets | 288,6 |
| Total current assets | 2,836,1 |
| FURNITURE AND EQUIPMENT - AT COST, less accumulated depreciation | 240,0 |
| OTHER ASSETS | 42,9 |
| | $ 3,119,1 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|---|---|
| CURRENT LIABILITIES | |
| Accounts payable | $ 131,1 |
| Accrued liabilities | 283,6 |
| Accrued payroll and employee benefits | 79,9 |
| Deferred revenues | 328,5 |
| Total current liabilities | 823,2 |
| COMMITMENTS AND CONTINGENCIES | |
| STOCKHOLDERS' EQUITY | |
| Common stock - $.001 par value; 15,000,000 shares authorized; 1,450,259 shares issued; 1,408,176 and 1,444,676 shares outstanding, respectively | 1,4 |
| Additional paid-in capital | 10,110,8 |
| Accumulated deficit | (7,716,6 |
| Accumulated other comprehensive loss | (15,8 |
| Less common stock in treasury at cost, 42,083 and 5,583 shares, respectively | (83,9 |
| Total stockholders' equity | 2,295,8 |
| | $ 3,119,1 |

The accompanying notes are an integral part of these statements.

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clickNsettle.com, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | Three months ended March | |
|---|---|---|
| | 2002 | 2001 |

| | | |
|---|---|---|
| Net revenues | $ 881,992 | $ 824,939 |
| Operating costs and expenses | | |
| Cost of services | 235,318 | 211,467 |
| Sales and marketing expenses | 351,247 | 499,216 |
| General and administrative expenses | 594,290 | 593,869 |
| | 1,180,855 | 1,304,552 |
| Loss from operations | (298,863) | (479,613) |
| Other income (expenses) | | |
| Investment income (loss) | 8,023 | (68,385) |
| Other income | 3,144 | 15,157 |
| | 11,167 | (53,228) |
| Loss before income taxes | (287,696) | (532,841) |
| Income taxes | - | - |
| NET LOSS | $ (287,696) | $ (532,841) |
| Preferred stock dividend and deemed dividend on preferred stock for beneficial conversion | - | (18,133) |
| Loss before cumulative effect of change in accounting principle for deemed dividend on preferred stock for beneficial conversion | $ (287,696) | $ (550,974) |
| Cumulative effect of change in accounting principle for deemed dividend on preferred stock for beneficial conversion | - | - |
| Net loss attributable to common stockholders | $ (287,696) | $ (550,974) |
| Loss per common share - basic and diluted: | | |
| Loss before cumulative effect of change in accounting principle | $ (0.20) | $ (0.38) |
| Cumulative effect of change in accounting principle | - | - |
| Net loss per common share | $ (0.20) | $ (0.38) |
| Weighted-average shares outstanding - basic and diluted | 1,408,176 | 1,442,483 |

The accompanying notes are an integral part of these statements.

clickNsettle.com, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS
Nine months ended March 31, 2002 and 2001

| | Preferred stock | | Common stock | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| Balances at June 30, 2000 | 1,850 | $ 1,634,789 | 4,093,279 | $4,093 |
| Compensation related to stock options and warrants | | | | |
| Common shares issued upon exercise of stock options | | | 11,250 | 11 |
| Common shares issued in exchange for future advertising services, net of issuance costs of $1,015 | | | 184,422 | 184 |
| Common shares issued | | | 18,662 | 19 |
| Preferred stock dividend and deemed dividend on preferred stock for beneficial conversion | | 10,149 | | |
| Common shares issued pursuant to conversion of preferred stock | (50) | (44,457) | 43,163 | 44 |
| Purchase of common shares for treasury | | | | |
| Cumulative effect of change in accounting principle for deemed dividend on preferred stock for beneficial conversion | | | | |
| Net loss | | | | |
| Change in unrealized gain (loss) on marketable securities | | | | |
| Comprehensive loss | | | | |
| Balances at March 31, 2001 | 1,800 | $ 1,600,481 | 4,350,776 | $ 4,351 |
| Balances at June 30, 2001 | | | 4,350,776 | $4,351 |
| One-for-three reverse stock split effectuated on August 20, 2001 | | | (2,900,517) | (2,901) |
| | | | 1,450,259 | 1,450 |
| Compensation related to stock options | | | | |
| Purchase of common shares for treasury | | | | |
| Net loss | | | | |
| Change in unrealized gain (loss) on marketable securities | | | | |

| | | | | |
|---|---|---|---|---|
| Comprehensive loss | | | | |
| Balances at March 31, 2002 | - | - | 1,450,259 | $ 1,450 |

| | Accumulated other comprehensive income (loss) | Common stock in treasury | Tota stockhol equi |
|---|---|---|---|
| Balances at June 30, 2000 | $ 14,443 | | $6,266,3 |
| Compensation related to stock options and warrants | | | 35,9 |
| Common shares issued upon exercise of stock options | | | 21,0 |
| Common shares issued in exchange for future advertising services, net of issuance costs of $1,015 | | | 768,9 |
| Common shares issued | | | 77,9 |
| Preferred stock dividend and deemed dividend on preferred stock for beneficial conversion | | | (54,7 |
| Common shares issued pursuant to conversion of preferred stock | | | |
| Purchase of common shares for treasury | | (4,147) | (4,1 |
| Cumulative effect of change in accounting principle for deemed dividend on preferred stock for beneficial conversion | | | |
| Net loss | | | (1,849,7 |

| | | | |
|---|---|---|---|
| Change in unrealized gain (loss) on marketable securities | (45,148) | | (45,1 |
| Comprehensive loss | | | |
| Balances at March 31, 2001 | $ (30,705) | $ (4,147) | $5,216,47 |
| Balances at June 30, 2001 | ($6,135) | ($12,755) | $3,404,6 |
| One-for-three reverse stock split effectuated on August 20, 2001 | | | |
| | (6,135) | (12,755) | 3,404,6 |
| Compensation related to stock options | | | 1,4 |
| Purchase of common shares for treasury | | (71,163) | (71,1 |
| Net loss | | | (1,029,3 |
| Change in unrealized gain (loss) on marketable securities | (9,728) | | (9,7 |
| Comprehensive loss | | | |
| Balances at March 31, 2002 | $ (15,863) | $ (83,918) | $ 2,295,8 |

The accompanying notes are an integral part of these statements.



clickNsettle.com, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine months ended March 31,

| | 2002 |
|---|---|
| Cash flows from operating activities | |
| Net loss | $ (1,029,376) |
| Adjustments to reconcile net loss to net cash used in operating activities | |
| Depreciation and amortization | 76,976 |
| Losses on sales of marketable securities | 8,655 |
| Write-down of marketable securities | 57,045 |
| Advertising in exchange for common stock | 289,148 |
| Compensation related to stock options and warrants | 1,454 |
| Changes in operating assets and liabilities | |

| | |
|---|---|
| Decrease in accounts receivable | 36,266 |
| (Increase) in prepaid expenses and other current assets | (59,460) |
| (Increase) in other assets | - |
| (Decrease) in accounts payable and accrued liabilities | (48,810) |
| Increase (decrease) in accrued payroll and employee benefits | 44,962 |
| Increase (decrease) in deferred revenues | 44,397 |
| Net cash used in operating activities | (578,743) |
| Cash flows from investing activities | |
| Purchases of marketable securities | (70,196) |
| Proceeds from sales of marketable securities | 38,186 |
| Purchases of furniture and equipment | (7,807) |
| Net cash used in investing activities | (39,817) |
| Cash flows from financing activities | |
| Issuance of common stock, net of issuance costs and proceeds from exercise of stock options | - |
| Purchase of treasury stock at cost | (71,163) |
| Net cash (used in) provided by financing activities | (71,163) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (689,723) |
| Cash and cash equivalents at beginning of period | 2,558,372 |
| Cash and cash equivalents at end of period | $ 1,868,649 |

Supplemental disclosure of cash flow information:
Noncash financing activities
Preferred stock dividend and deemed dividend on preferred stock for beneficial conversion
Issuance of common stock in exchange for prepaid advertising
Conversion of preferred stock to common stock

The accompanying notes are an integral part of these statements.



CLICKNSETTLE.COM, INC. and SUBSIDIARIES

Notes to Consolidated Financial Statements
Nine months ended March 31, 2002
(Unaudited)

1. The consolidated balance sheet as of March 31, 2002 and the related consolidated statements of operations for the three and nine month periods ended March 31, 2002 and 2001 have been prepared by clickNsettle.com, Inc., including the accounts of its wholly-owned subsidiaries. In the opinion of management, all adjustments necessary to present fairly the financial position as of March 31,

2002 and for all periods presented, consisting of normal recurring adjustments, have been made. Results of operations for the three and nine month periods ended March 31, 2002 are not necessarily indicative of the operating results expected for the full year.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended June 30, 2001 included in the Company's Annual Report on Form 10-KSB. The accounting policies used in preparing these consolidated financial statements are the same as those described in the June 30, 2001 consolidated financial statements.

2. On August 20, 2001, the Company effected a 1-for-3 reverse stock split. All references to number of shares and per share data in the consolidated financial statements and accompanying notes have been restated. The par value of the common stock remained unchanged at $.001 per share.

3. On November 13, 2001, the Company's redeemable warrants and underwriter's warrants expired. Prior to such expiration, there were 1,609,900 redeemable warrants and 40,833 underwriter's warrants outstanding.

4. Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share are based on the weighted-average number of common and potential common shares outstanding. The calculation takes into account the shares that may be issued upon exercise of stock options and warrants and conversion of preferred stock, reduced by the shares that may be repurchased with the funds received from the exercise and conversion, based on the average price during the period. Diluted earnings per share is the same as basic earnings per share as potential common shares of 730,439 and 2,031,332 at March 31, 2002 and 2001, respectively, would be antidilutive as the Company incurred net losses for the three month and nine month periods ended March 31, 2002 and 2001.

5. The cost of advertising is expensed when the advertising takes place. For advertising and external public relations costs, the Company incurred approximately $81,719 and $115,450 for the quarters ended March 31, 2002 and 2001, respectively, and approximately $343,229 and $452,382 for the nine months ended March 31, 2002 and 2001, respectively. Of such totals, non-cash advertising charges comprise approximately $63,431 and $92,814, respectively, for the third quarter of fiscal year 2002 and 2001, respectively, and approximately $289,148 and $217,626, respectively, for the nine months ended March 31, 2002 and 2001, respectively. In accordance with the terms of the August 2000 advertising agreement with American Lawyer Media, Inc., the Company will purchase $250,000 of advertising in the year subsequent to the initial two-year term. Such advertising is expected to take place from August 2002 through August 2003.

6. On March 6, 2001, the Company received a letter from The Nasdaq SmallCap Market that its common stock had failed to maintain a minimum bid price of $1.00 over the previous 30 consecutive trading days. As a result, the Company was provided 90 calendar days, or until June 4, 2001, to regain compliance. As the Company was unable to demonstrate compliance with this rule, the Company requested and was granted a meeting on July 19, 2001 to seek continued listing on The Nasdaq SmallCap Market. On September 27, 2001, Nasdaq implemented a moratorium on the minimum bid price and market value of public float requirements for continued listing on The Nasdaq SmallCap Market until January 2, 2002. On October 2, 2001, the Company received a determination from the Nasdaq Listing Qualifications Panel to continue the listing of the Company's common stock and the hearing file has been closed.

Additionally, Nasdaq amended one of its standards for continued listing on the SmallCap Market from requiring a minimum of $2 million in net tangible assets to a minimum of $2.5 million of net equity. The Company will need to be in compliance with the new standard as of November 1, 2002. As of March 31, 2002, both the Company's net tangible assets and its net equity was $2,295,878. Although the Company is currently in compliance with the net tangible assets requirement, to the extent that additional net losses are incurred during the fourth quarter of fiscal year 2002, it is possible that as of June 30, 2002, the Company may not meet the minimum requirement. Additionally, the Company's net equity is below the new minimum standard that goes into effect in November 2002. The Company is in the process of exploring opportunities to remedy this situation; however, there can be no assurance that the Company will remain in compliance with the applicable standard and therefore is subject to having its common stock delisted from the Nasdaq SmallCap Market when and if such non-compliance were to occur.

7. On March 14, 2002, the Company extended its March 1998 purchase plan (the "Plan"), pursuant to which the number of shares of common stock of the Company eligible for purchase under the Plan remained at an aggregate of 266,667 shares. The Plan shall expire on the earlier of all of the shares being purchased or March 14, 2003, provided, however, that the Plan may be discontinued at any time by the Company. As of March 31, 2002, the Company had purchased 42,083 shares under the Plan for an aggregate cost of $83,918.

8. In July 2001, the Company signed a letter of intent to acquire E-Vue, Inc., a development stage company engaged in developing next-generation end-to-end solutions for multimedia delivery over broadband and/or wireless networks based on the MPEG-4 standard and associated compliant technologies. The proposed purchase price under the letter of intent consisted of a combination of common stock and convertible preferred stock to be issued by the Company depending on certain financing conditions on the part of E-Vue, Inc. In the event either party breached the agreement, the non-breaching party was to be reimbursed for actual costs incurred up to a maximum of $100,000 and was entitled to a $100,000 breakup fee. The acquisition, which would have required shareholder approval, was initially expected to close in October 2001. However, the Nasdaq Listing Qualifications Panel informed the Company that the proposed merger would have resulted in a change of control for purposes of Nasdaq Marketplace rules, and therefore the combined entities would have been required to evidence compliance with all requirements for initial listing on The Nasdaq SmallCap Market immediately upon consummation of the transaction. On January 8, 2002, the Company announced that discussions had ended with respect to the proposed merger of the entities and that the acquisition of E-Vue, Inc. would not be concluded.



9. The components of comprehensive income (loss) are as follows:

| | Three months ended March 31, 2002 | 2001 |
|---|---|---|
| Net loss | $ (287,696) | $ (532,841) |
| Change in unrealized gain (loss) on marketable securities | (14,970) | 94,155 |
| Comprehensive loss | $ (302,666) | $ (438,686) |

| | Nine months ended March 31, 2002 | 2001 |
|---|---|---|
| Net loss | $ (1,029,376) | $(1,849,733) |
| Change in unrealized gain (loss) on marketable securities | (9,728) | (45,148) |
| Comprehensive loss | $ (1,039,104) | $(1,894,881) |

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

From time to time, including in this quarterly report on Form 10-QSB, clickNsettle.com, Inc. (formerly NAM Corporation) (the Company or we) may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, future operations, new products, research and development activities and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, we note that a variety of factors could cause our actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of our business include, without limitation, the following: changes in the insurance and legal industries; our inability to retain current or new hearing officers; changes in the public court systems; and the degree and timing of the market's acceptance of our web site and in-person and video-conferenced arbitration and mediation programs.

General

We provide alternative dispute resolution services, or ADR services, to insurance companies, law firms, corporations and municipalities on an in-person basis and via video conferencing. We focus the majority of our marketing efforts on developing and expanding relationships with these entities, which we believe are some of the largest consumers of ADR services. We believe that with our global roster of qualified hearing officers, video conferencing capabilities, knowledge of dispute resolution, reputation within the corporate and legal communities and Internet-based dispute resolution services, we are uniquely positioned to provide a comprehensive web-enabled total solution to disputing parties worldwide.

We currently operate from locations in New York and Massachusetts.

Our objective is to become the leading global provider of dispute resolution solutions by providing services and software designed to enhance and streamline the traditional and often time-consuming and expensive legal process. We believe we are uniquely positioned to offer customized solutions built upon our sophisticated technology platform. We believe that our marketing efforts going forward will best be directed towards large-scale applications that benefit from our advanced infrastructure. As such, our emphasis will be driven by our unique capabilities as an administrator. Additionally, the staff presently dedicated to our existing transactional client base will be charged with growing this book of business and exploiting our inherent market advantage. Further, certain aspects of our transactional business that we deem to have minimal revenue potential, such as our online, blind bid offering, have been discontinued at this time. However, we have a patent pending on our automated dispute resolution processing system and, dependent upon market acceptance, we will continue to review the needs of our prospective clients and offer those solutions that we believe will be of most value to the clients and to the Company. Therefore, our goals are as follows: (1) exploiting potential revenue streams driven by our technological innovations in software, systems and intellectual property such as (i) the administration of high-volume, customized dispute resolution programs for large corporations, governmental bodies and agencies and (ii) the licensing and/or sale of dispute resolution-related software; (2) building brand recognition of NAM (the arbitration company) as the premier provider of dispute resolution solutions through our advertising campaign; (3) attracting and retaining the services of the most talented, former top-tier judges and attorneys; and (4) broadening the type and complexity of dispute resolution cases we administer.

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We believe that the current economic slowdown is an environment which should encourage the use of our services as more business entities are focusing on cost saving measures given the tremendous expense related to traditional litigation versus our quicker, more efficient dispute resolution solutions.

We have and may continue to incur net losses in the future as a result of (a) continuing development and other costs associated with our software initiatives for new products and (b) our advertising campaign. Although we are actively promoting our services, there can be no assurance that the revenues to be realized therefrom will exceed the expenses to be incurred. Additionally, we currently expect that our advertising campaign will continue into the first quarter of fiscal year 2004. In August 2000, we signed an agreement with American Lawyer Media, Inc., the nation's leading legal journalism and information company, to provide $1,000,000 of advertising and promotional opportunities in their national and regional publications over a two-year period in exchange for 61,474 shares of our common stock (as adjusted for the 1-for-3 reverse stock split effectuated on August 20, 2001). As part of that agreement, we will additionally purchase $250,000 of advertising during the period from August 2002 through August 2003. We believe that targeting our advertising to the legal community will continue to increase awareness of our comprehensive suite of dispute resolution services. However, there can be no assurance that this effort will result in increased revenues.

Third Quarter Ended March 31, 2002 Compared to Third Quarter Ended March 31, 2001

Revenues. Revenues increased 6.9% to $881,992 for the third quarter ended March 31, 2002 from $824,939 for the comparable prior period. The increase in revenues is primarily attributable to a rise in the average dollars earned per in-person hearing and higher fees earned from commercial cases. Offsetting these increases was a decline in the number of in-person hearings conducted during the quarter ended March 31, 2002. As New York is our primary market, the terrorist attacks on September 11, 2001 adversely impacted our business as there was a decline in the number of in-person hearings conducted in the New York metropolitan area as well as at our satellite offices as a general malaise was experienced in the business community. The insurance industry, which was particularly hard hit by the recent events, represents a major portion of our clientele. However, as we have accelerated our recruitment of an exclusive pool of former, top-tier, "blue-ribbon" hearing officers and have highlighted such in our present advertising campaign, we believe this will enable us to attract more complex cases that will continue to favorably contribute to the average dollars earned per in-person hearing.

Cost of Services. Cost of services increased 11.3% to $235,318 for the third quarter ended March 31, 2002 from $211,467 for the third quarter ended March 31, 2001. Additionally, the cost of services as a percentage of revenues increased to approximately 27% in the third quarter of fiscal year 2002 from 26% in the third quarter of fiscal year 2001. The increase is partially attributed to a greater proportion of commercial cases. Although the direct cost of services for these cases tends to be higher as a percentage of revenue, the profit per case is typically greater. The ratio of cost of services to revenues will fluctuate based on the number of hours per case and our ability (or inability) to take advantage of volume arrangements with hearing officers which usually lower the cost per case.



Sales and Marketing. Sales and marketing costs decreased 29.6% to $351,247 for the third quarter ended March 31, 2002 from $499,216 for the third quarter ended March 31, 2001. Sales and marketing costs as a percentage of revenues decreased to 40% in the third quarter of fiscal year 2002 from 61% in the third quarter of fiscal year 2001. Most of the decrease (approximately $107,000) relates to employee costs and related items (including benefits and payroll taxes) and travel and entertainment expenses. As part of our migration towards centralizing operations through the utilization of our web platform, we began migrating our marketing efforts toward fewer but more efficient primary customer service centers and national account arrangements, as opposed to the continuation of running smaller and less efficient regional office locations. We believe that building on the present platform is the appropriate strategy to enhance operating results. As such, the consolidation of our offerings into a one-stop, comprehensive suite of web-enabled dispute resolution tools enabled us to streamline sales personnel and related costs including travel and entertainment expenses. Additionally, advertising, promotions and trade show costs declined by approximately $41,000 from the third quarter of fiscal year 2001 to the third quarter of fiscal year 2002 as we reduced our expenditures in these areas. Instead, we focused our advertising campaign around our agreement with American Lawyer Media, Inc., which provides us with $1,000,000 of advertising and promotional opportunities in their national and regional publications over a two-year period through August 2002. The related non-cash amount expensed for the quarters ended March 31, 2002 and 2001 approximated $63,400 and $92,800, respectively. Additional non-cash charges for print advertising relating to this agreement will be incurred during the remainder of fiscal year 2002 and into the first quarter of fiscal year 2003 and, in total, will approximate $190,500. As part of that agreement, we will additionally purchase $250,000 of advertising during the period from August 2002 through August 2003. Due to the economic slowdown, many businesses are decreasing the level of advertising and therefore, as commercial clutter lessens, we believe our targeted campaign should be more prominent and receive more attention.

General and Administrative. General and administrative costs increased 0.1% to $594,290 for the third quarter ended March 31, 2002 from $593,869 for the third quarter ended March 31, 2001. Legal fees increased by approximately $14,800 in the current period primarily due to an investment made to obtain international patents for our "total solution" web-enabled dispute resolution management and operational system. This minor increase was offset by reduced administrative costs resulting from operational efficiencies. General and administrative costs as a percentage of revenues decreased to 67% for the third quarter of fiscal year 2002 from 72% for the third quarter of fiscal year 2001.

Other Income (Expenses). Other income (expenses) changed by $64,395 to other income of $11,167 for the third quarter ended March 31, 2002 from other expenses of ($53,228) for the third quarter ended March 31, 2001. Other income (expenses) is composed primarily of investment income and realized gains (losses) generated from investments. Realized losses (which includes write-downs for other than temporary declines in the value of marketable securities) approximated $133,200 in the third quarter of fiscal year 2001 versus $400 in the third quarter of fiscal year 2002, an improvement of $132,800. Additionally, net interest income generated primarily from investments in money market funds declined by approximately $56,300 from $64,800 in the prior year period due to lower invested balances and a decline in the prevailing interest rates between the two periods.

Income Taxes. Tax benefits resulting from net losses incurred for the periods ended March 31, 2002 and 2001 were not recognized as we recorded a full valuation allowance against the net operating loss carryforwards during the periods.

Net Loss. For the three months ended March 31, 2002, we had a net loss of $287,696 as compared to a net loss of $532,841 for the three months ended March 31, 2001. The loss declined as we were able to realize operating efficiencies by streamlining and centralizing operations through the utilization of our enhanced processing system.



Nine months Ended March 31, 2002 Compared to Nine months Ended March 31, 2001

Revenues. Revenues decreased 2.2% to $2,709,889 for the nine months ended March 31, 2002 from $2,771,375 for the comparable prior period. The decrease in revenues is primarily attributable to a decline in the number of in-person hearings conducted in the New York metropolitan area during the month of September. As New York is our primary market, the terrorist attacks on September 11, 2001 adversely impacted our business as many of the hearings scheduled for the remainder of September had to be adjourned. During this same period, there was a decline in the number of in-person hearings conducted at our satellite offices as a general malaise was experienced in the business community. The insurance industry, which was particularly hard hit by the recent events, represents a major portion of our clientele. Also, in the prior year period, revenue of $60,000 was generated from a unique, non-recurring video-conferencing contract that was fulfilled in the prior year. Offsetting the revenue decline was a rise in the average dollars earned per in-person hearing and higher fees earned from commercial cases. As we have signed an exclusive pool of former, top-tier hearing officers and have highlighted such in our present advertising campaign, we believe this will enable us to attract more complex cases that will continue to favorably contribute to the average dollars earned per in-person hearing.

Cost of Services. Cost of services decreased 1.8% to $674,613 for the nine months ended March 31, 2002 from $687,327 for the nine months ended March 31, 2001. Additionally, the cost of services as a percentage of revenues remained consistent between the periods at approximately 25% in the first nine months of fiscal years 2002 and 2001, respectively. The 2001 fiscal year period ratio of cost of services as a percentage of revenues was favorably impacted by the recognition of revenue during the nine months ended March 31, 2001 from a videoconferencing contract in which the use of hearing officers was not needed. The ratio of cost of services to revenues will fluctuate based on the number of hours per case and our ability (or inability) to take advantage of volume arrangements with hearing officers which usually lower the cost per case.

Sales and Marketing. Sales and marketing costs decreased 35.2% to $1,165,585 for the nine months ended March 31, 2002 from $1,798,533 for the nine months ended March 31, 2001. Sales and marketing costs as a percentage of revenues decreased to 43% in the first nine months of fiscal year 2002 from 65% in the first nine months of fiscal year 2001. Most of the decrease (approximately $433,300) relates to employee costs and related items (including benefits and payroll taxes) and travel and entertainment expenses. As part of our migration towards centralizing operations through the utilization of our web platform, we began migrating our marketing efforts toward fewer but more efficient primary customer service centers and national account arrangements, as opposed to the continuation of running smaller and less efficient regional office locations. We believe that building on the present platform is the appropriate strategy to enhance operating results. As such, the consolidation of our offerings into a one-stop, comprehensive suite of web-enabled dispute resolution tools enabled us to streamline sales personnel and related costs including travel and entertainment expenses. Additionally, advertising, promotions and trade show costs declined by approximately $200,600 from the first nine months of fiscal year 2001 to the first nine months of fiscal year 2002 as we reduced our expenditures in these areas. Instead, we focused our advertising campaign around our agreement with American Lawyer Media, Inc., which provides us with $1,000,000 of advertising and promotional opportunities in their national and regional publications over a two-year period through August 2002. The related non-cash amount expensed for the nine months ended March 31, 2002 and 2001 approximated $289,100 and $217,600, respectively. Additional non-cash charges for print advertising relating to this agreement will be incurred during the remainder of fiscal year 2002 and into the first quarter of fiscal year 2003 and, in total, will approximate $190,500. As part of that agreement, we will additionally purchase $250,000 of advertising during the period from August 2002 through August 2003. Due to the economic slowdown, many businesses are decreasing the level of advertising and therefore, as commercial clutter lessens, we believe our targeted campaign should be more prominent and receive more attention.

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General and Administrative. General and administrative costs decreased 11.5% to $1,885,967 for the nine months ended March 31, 2002 from $2,130,755 for the nine months ended March 31, 2001. A portion of the decrease (approximately $208,100) relates to professional fees for various consulting services, a majority of which related to market research, systems evaluations and investor-relations projects which were completed by December 31, 2000. These initiatives were undertaken in order to position us for future growth and to enhance operating efficiencies. Secondly, we incurred approximately $38,000 in one-time costs to promote our company to overseas investors in the prior year period. By enhancing operational efficiencies, we reduced expenditures for administrative personnel, employee recruitment, seminars, postage, printing and telephone that approximated $117,600. Offsetting these declines was an increase in legal fees of approximately $111,300 related to mergers and acquisitions activity and an investment made to obtain international patents for our "total solution" web-enabled dispute resolution management and operational system. General and administrative costs as a percentage of revenues decreased to 70% for the nine months of fiscal year 2002 from 77% for the nine months of fiscal year 2001.

Other (Expenses) Income. Other expenses for the nine months ended March 31, 2001 increased from $4,493 to $13,100 for the nine months ended March 31, 2002. Other (expenses) income is composed primarily of investment income and realized gains (losses) generated from investments. Realized losses (which include write-downs for other than temporary declines in the value of marketable securities) approximated $254,100 in the first nine months of fiscal year 2001 versus $65,700 in the first nine months of fiscal year 2002, an improvement of $188,400. Additionally, net interest income generated primarily from investments in money market funds declined by approximately $186,800 from $228,200 in the prior year period due to lower invested balances and a decline in the prevailing interest rates between the two periods.

Income Taxes. Tax benefits resulting from net losses incurred for the nine month periods ended March 31, 2002 and 2001 were not recognized as we recorded a full valuation allowance against the net operating loss carryforwards during the periods.

Net Loss. For the nine months ended March 31, 2002, we had a net loss of $1,029,376 as compared to a net loss of $1,849,733 for the nine months ended March 31, 2001. Despite a lower level of revenue (which we believe was adversely affected by the events of September 11, 2001) and interest income, the loss declined as we were able to realize operating efficiencies by streamlining and centralizing operations through the utilization of our enhanced processing system.

Liquidity and Capital Resources

At March 31, 2002, the Company had a working capital surplus of $2,012,830 compared to $3,003,997 at June 30, 2001. The decrease in working capital occurred primarily as a result of the loss from operations.

Net cash used in operating activities was $578,743 for the nine months ended March 31, 2002 versus $1,293,382 in the prior comparable period. Cash used in operating activities principally declined due to a reduction in the loss from operations which was partially offset by a decrease in non-cash charges for write-downs of securities.

Net cash used in investing activities was $39,817 for the nine months ended March 31, 2002 versus $191,152 in the comparable prior period. The change in cash from investing activities was primarily due to a lower level of net purchases of both fixed assets and marketable securities.



Net cash used in financing activities was $71,163 for the nine months ended March 31, 2002 versus cash provided by financing activities of $93,847 in the prior comparable period. In the current nine-month period, we purchased 36,500 shares of our common stock for an aggregate cost of $71,163 as compared to a purchase of 1,666 shares of our common stock (as adjusted for the 1-for-3 reverse stock split effectuated on August 20, 2001) for an aggregate cost of $4,147 in the prior comparable period. Additionally, in the prior year nine-month period, we received net proceeds from the issuance of 6,221 shares of our common stock at a price of $12.525 per share (as adjusted for the 1-for-3 reverse stock split effectuated on August 20, 2001) and also received proceeds of $21,000 from the exercise of stock options.

We anticipate that cash flows, together with funds received in connection with the issuance of common stock in prior fiscal years, will be sufficient to fund our operations for the next year. Additionally, under an Equity Line of Credit Agreement, we have the right, until February 15, 2003, to require that the investor purchase between $500,000 and $7,000,000 of our common stock, subject to certain limitations and assuming an effective registration statement is in place. The registration statement we originally filed in April 2000 is not currently effective. However, if deemed to be beneficial, we can elect to amend such registration statement or file a new one in the future. The availability to use this line is limited based on the closing bid price of our common stock and the average trading volume of such stock in a thirty-day period. If the closing bid price and average trading volume are below a defined minimum, the maximum amount the investor can be required to purchase at that point in time will be $250,000 of our common stock. There is also a minimum of 15 days between each request for investment.

Termination of Acquisition of E-Vue, Inc.

On July 9, 2001, we signed a letter of intent to acquire E-Vue, Inc., a development stage company engaged in developing next-generation end-to-end solutions for multimedia delivery over broadband and/or wireless networks based on the MPEG-4 standard and associated compliant technologies. The proposed purchase price under the letter of intent consisted of a combination of common stock and convertible preferred stock to be issued by us depending on certain financing conditions on the part of E-Vue, Inc. In the event either party breached the agreement, the non-breaching party was to be reimbursed for actual costs incurred up to a maximum of $100,000 and was entitled to a $100,000 break up fee. The acquisition, which would have required shareholder approval, was initially expected to close in October 2001. However, the Nasdaq Listing Qualifications Panel informed us that the proposed merger would have resulted in a change of control for purposes of Nasdaq Marketplace rules, and therefore the combined entities would have been required to evidence compliance with all requirements for initial listing on The Nasdaq SmallCap Market immediately upon consummation of the transaction. On January 8, 2002, we announced that discussions had ended with respect to the proposed merger of the entities and that the acquisition of E-Vue, Inc. would not be concluded.



Nasdaq Listing

Nasdaq amended one of its standards for continued listing on the SmallCap Market from requiring a minimum of $2 million in net tangible assets to a minimum of $2.5 million of net equity. The Company will need to be in compliance with the new standard as of November 1, 2002. As of March 31, 2002, both the Company's net tangible assets and its net equity was $2,295,878. Although the Company is currently in compliance with the net tangible assets requirement, to the extent that additional net losses are incurred during the fourth quarter of fiscal year 2002, it is possible that as of June 30, 2002, the Company may not meet the minimum requirement. Additionally, the Company's net equity is below the new minimum standard that goes into effect in November 2002. The Company is in the process of exploring opportunities to remedy this situation; however, there can be no assurance that the Company will remain in compliance with the applicable standard and therefore is subject to having its common stock delisted from the Nasdaq SmallCap Market when and if such non-compliance were to occur.



PART II - OTHER INFORMATION

Item 1. Legal Proceedings.
Not applicable.

Item 2. Changes in Securities and Use of Proceeds.
On August 20, 2001, the Company effected a 1-for-3 reverse stock split. All references to number of shares and per share data in the consolidated financial statements and accompanying notes have been restated, except with respect to certain redeemable warrants which were adjusted to reflect the reverse stock split. The par value of the common stock remained unchanged at $.001 per share. On November 13, 2001, the Company's redeemable warrants and underwriter's warrants expired. Prior to such expiration, there were 1,609,900 redeemable warrants and 40,833 underwriter's warrants outstanding.

Item 3. Defaults upon Senior Securities.
Not applicable.

Item 4. Submission of matters to a Vote of Security Holders.
Not applicable.

Item 5. Other information.
Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

| Exhibit Number | Description of Document |
|---|---|
| 3.1 | Certificate of Incorporation, as amended (1) |
| 3.1 (b) | Certificate of Designation of Series A Exchangeable Preferred Stock (6) |
| 3.1 (c) | Certificate of Correction of Certificate of Designation of Series A Exchangeable Preferred Stock (7) |
| 3.1 (d) | Certificate of Amendment of Certificate of Incorporation (9) |
| 3.1 (e) | Certificate of Amendment of Certificate of Incorporation, as amended (12) |
| 3.2 | By-Laws of the Company, as amended (4) |
| 4.1 | Stock Purchase Agreement dated May 10, 2000 (8) |
| 4.2 | Stock Purchase Warrant dated May 10, 2000 (8) |
| 10.1 | 1996 Stock Option Plan, amended and restated (4) |
| 10.2 | Employment Agreement between Company and Roy Israel (3) |
| 10.2.1 | Amendment to Employment Agreement between Company and Roy Israel (4) |
| 10.5 | Employment Agreement between Company and Patricia Giuliani-Rheaume (2) |
| 10.7 | Lease Agreement for Great Neck, New York facility (1) |
| 10.7.1 | Amendment to Lease Agreement for Great Neck, New York facility (5) |
| 10.7.2 | Second Amendment to Lease Agreement for Great Neck, New York facility (11) |
| 10.8 | Exchangeable Preferred Stock and Warrants Purchase Agreement (6) |
| 10.9 | Preferred Stock Registration Rights Agreement (6) |



10.11 Private Equity Line of Credit Agreement between Moldbury Holdings

| | |
|---|---|
| | and Company (6) |
| 10.12 | Private Equity Line of Credit Registration Rights Agreement (6) |
| 10.13 | Stock Purchase Warrant for Moldbury Holdings Limited (6) |
| 10.14 | Advertising Agreement dated August 11, 2000 (10) |

(1) Incorporated herein in its entirety by reference to the Company's Registration Statement on Form SB-2, Registration No. 333-9493, as filed with the Securities and Exchange Commission on August 2, 1996.

(2) Incorporated herein in its entirety by reference to the Company's 1997 Annual Report on Form 10-KSB.

(3) Incorporated herein in its entirety by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1997.

(4) Incorporated herein in its entirety by reference to the Company's 1998 Annual Report on Form 10-KSB.

(5) Incorporated herein in its entirety by reference to the Company's 1999 Annual Report on Form 10-KSB.

(6) Incorporated herein in its entirety by reference to the Company's SB-2 filed on March 28, 2000.

(7) Incorporated herein in its entirety by reference to the Company's SB-2A filed on April 21, 2000.

(8) Incorporated herein in its entirety by reference to the Company's Form 8-K filed on May 17, 2000.

(9) Incorporated herein in its entirety by reference to the Company's Form 8-K filed on June 21, 2000.

(10) Incorporated herein in its entirety by reference to the Company's Form 8-K filed on August 24, 2000.

(11) Incorporated herein in its entirety by reference to the Company's 2000 Annual Report on Form 10-KSB.

(12) Incorporated herein in its entirety by reference to the Company's 2001 Annual Report on Form 10-KSB.

(b) Reports on Form 8-K. Form 8-K was filed on March 14, 2002 to announce the extension of our March 1998 purchase plan to acquire up to an aggregate of 266,667 shares of our common stock for a one-year period.



SIGNATURES

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

CLICKNSETTLE.COM, INC.

Date: May 13, 2002 By: /s/ Roy Israel

Roy Israel, President and CEO

Date: May 13, 2002 By: /s/ Patricia A. Giuliani-Rheaume

Patricia A. Giuliani-Rheaume, Vice President, Treasurer and CFO