CLICKNSETTLE COM INC
Form 10QSB
November 15, 2004

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

FORM 10-QSB

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

For the quarterly period ended September 30, 2004

|_| 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 (State or Other Jurisdiction of Incorporation or Organization)	23-2753988 (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)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of November 11, 2004, 8,449,056 shares of common stock of the issuer were outstanding.

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

CLICKNSETTLE.COM, INC.
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clickNsettle.com, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

		September 30, 2004
		a
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	966,818
Certificates of deposit		200,000
Marketable securities		--
Accounts receivable (net of allowance for doubtful accounts of $135,195)		275,406
Prepaid expenses and other current assets (net of allowance for doubtful note receivable of $48,848)		45,350
Total current assets		1,487,574
FURNITURE AND EQUIPMENT - AT COST, less accumulated depreciation		--
OTHER ASSETS		49,726
	$	1,537,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$	197,495
Accrued expenses and other liabilities		286,123
Accrued payroll and employee benefits		88,523
Deferred revenues		233,478

Total current liabilities	805,619
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Common stock - $.001 par value; 25,000,000 shares authorized; 8,701,554 shares issued and outstanding	8,702
Additional paid-in capital	10,104,325
Accumulated deficit	(9,297,428)
Accumulated other comprehensive income	--
Less common stock in treasury at cost, 252,498 shares	(83,918)
Total stockholders' equity	731,681
	$ 1,537,300

The accompanying notes are an integral part of these statements.

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

	Three months ended September 30, 2004	2003
Net revenues	$ 770,394	$ 987,786
Operating costs and expenses		
Cost of services	166,736	218,407
Sales and marketing expenses	253,597	323,502
General and administrative expenses	508,964	626,419
Loss on impairment of furniture and equipment	1,066	
Reorganization costs	69,657	
	1,000,020	1,168,328
Loss from operations	(229,626)	(180,542)
Other income		
Investment income	48,636	69,196
Other income	513	578
	49,149	69,774
Loss before income taxes	(180,477)	(110,768)

Income taxes	--	--
NET LOSS	$ (180,477)	$ (110,768)
Net loss per common share - basic and diluted	$ (0.02)	$ (0.01)
Weighted-average shares outstanding - basic and diluted	8,449,056	8,449,056

The accompanying notes are an integral part of these statements.

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clickNsettle.com, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE LOSS
Three months ended September 30, 2004 and 2003 (unaudited)

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)
	Shares	Amount			
Balances at June 30, 2003 (Note 1 below)	1,450,259	$1,450	$10,111,577	($8,394,247)	$ 43,960
Net loss				(110,768)	
Change in unrealized gain (loss) on marketable securities					(44,066)
Comprehensive loss					
Balances at September 30, 2003 (Note 1 below)	1,450,259	$1,450	$10,111,577	($8,505,015)	($106)
Balances at June 30, 2004	8,701,554	8,702	10,104,325	(9,116,951)	51,422
Net loss				(180,477)	
Change in unrealized gain (loss) on marketable securities					(51,422)
Comprehensive loss					
Balances at September 30, 2004	8,701,554	8,702	10,104,325	(9,297,428)	--

Note 1: Represents historical financial information and excludes the effect of the 6-for-1 forward stock split effectuated on December 22, 2003.

The accompanying notes are an integral part of these statements.

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clickNsettle.com, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
Three months ended September 30,

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Cash flows from operating activities	
Net loss	$(180
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation and amortization	
(Gain) on sales of marketable securities	(45
Loss on impairment of furniture and equipment	1
Provision for bad debts	1
Recovery from write-down of note receivable	
Changes in operating assets and liabilities	
Decrease in accounts receivable	51
Decrease in prepaid expenses, other current assets and other assets	14
(Decrease) in accounts payable, accrued expenses and other liabilities	(36
Increase in accrued payroll and employee benefits	39
Increase (decrease) in deferred revenues	60
Net cash used in operating activities	(94
Cash flows from investing activities	
Purchases of marketable securities and certificates of deposit	
Proceeds from sales of marketable securities and maturity of certificate of deposit	331
Purchases of furniture and equipment	(1
Net cash provided by (used in) investing activities	330
Cash flows from financing activities	
Net cash used in financing activities	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	235
Cash and cash equivalents at beginning of period	730
Cash and cash equivalents at end of period	$ 966

The accompanying notes are an integral part of these statements.

CLICKNSETTLE.COM, INC. and SUBSIDIARIES

Notes to Consolidated Financial Statements
Three months ended September 30, 2004
(Unaudited)

1. The consolidated balance sheet as of September 30, 2004 and the related consolidated statements of operations for the three month periods ended September 30, 2004 and 2003 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 September 30, 2004 and for all periods presented, consisting of normal recurring adjustments, have been made. Results of operations for the three-month period ended September 30, 2004 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, 2004 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, 2004 consolidated financial statements.

As a result of continued losses, the use of significant cash in operations and the uncertainty as to the ability to obtain stockholder approval for the asset purchase agreement and to thereafter effect a merger or a similar transaction with the intent to acquire a different operating business (see Note 6), there is substantial doubt about the Company's ability to continue as a going concern. The Company's independent auditors have included a going concern paragraph in their report on the June 30, 2004 consolidated financial statements which have been prepared assuming the Company will continue as a going concern. Accordingly, the accompanying consolidated financial statements do not include any adjustments that may result should the Company be unable to continue as a going concern.

2. 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, reduced by the shares that may be repurchased with the funds received from the exercise, 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 6,090,290 and 6,029,642 at September 30, 2004 and 2003, respectively, would be antidilutive as the Company incurred net losses for the three month periods ended September 30, 2004 and 2003.

3. The cost of advertising is expensed when the advertising takes place. For advertising and external public relations costs, the Company incurred $1,884 and $58,096 for the quarters ended September 30, 2004 and 2003. In accordance with the terms of the August 2000 advertising agreement, as amended, with American Lawyer Media, Inc., the Company will purchase $250,000 of advertising subsequent to the initial two-year term. Such advertising is to be expended from May 2003 through December 2004. During the quarters ended September 30, 2004 and 2003, the Company incurred $0 and $49,015 of advertising expense related to this commitment, respectively. The remaining commitment outstanding as of September 30, 2004 is $75,854.

4. On March 12, 2004, 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 1,600,002 shares. The Plan shall expire on the earlier of all of the shares being purchased or March 12, 2005, provided, however, that the Plan may be discontinued at any time by the Company. The Plan may also be extended on a year-to-year basis. There were no purchases in the three month period ended September 30, 2004, and, through September 30, 2004, the Company had purchased 252,498 shares under the Plan for an aggregate cost of $83,918.

5. In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS No. 148"). SFAS No. 148 encourages, but does not require, companies to record compensation cost for stock-based compensation plans at fair value. In addition, SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"). SFAS No. 148 requires disclosures in the summary of significant accounting policies in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company adopted, effective December 31, 2002, the disclosure provisions of SFAS No. 148 and continues to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation expense cost is not recognized for options granted to employees and to members of the board of directors when such options are granted to board members in their capacity as directors. During the three-month periods ended September 30, 2004 and 2003, the Company granted 0 and 240,000 options, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Three months ended September 30, 2004	2003
Net loss, as reported	$(180,477)	$(110,768)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(12,993)	(40,638)
Proforma net loss	$(193,470)	$(151,406)
Net loss per common share:		
Basic and diluted - as reported	$ (0.02)	$ (0.01)
Basic and diluted - pro forma	$ (0.02)	$ (0.02)

6. In July 2004, the Board of Directors decided to explore strategic alternatives for the Company in an effort to protect shareholder value. As a result of the numerous scandals in recent years and the passing of the Sarbanes-Oxley Act of 2002 to safeguard shareholders, micro-cap companies such as the Company are faced with mounting legal and audit fees to meet the new compliance requirements now needed to remain as a publicly traded entity. In addition to being expensive in terms of out-of-pocket expenditures, these requirements are costly in that they are time-consuming and place a strain on the Company's limited personnel resources. While the Company remains optimistic about the need for its services, management believes that the unavoidability of these escalating costs shortens the timeframe that the Company needs in order to realize revenues from many of its sales and marketing initiatives. Further, management believes revenue has been and will continue to be adversely affected by the consolidation and turmoil in the insurance industry, which represents a major portion of the Company's clientele. Additionally, insurance companies in general and some, in particular, have changed their claims-settling philosophies. Currently, management perceives that many of the larger insurance companies are taking a harder line with the plaintiff bar. This results in a slow down in the number of cases being submitted to ADR. This adversely affects the number of cases referred to the Company's forum. In a broader sense, management believes that lawsuits continue to be commenced and that the Company's services should prove to be vital to insurers in their ability to address a growing caseload with reduced costs, but the timing of such may be delayed.

On October 18, 2004, the Company entered into a definitive asset purchase agreement (the "Asset Purchase Agreement") with National Arbitration and Mediation, Inc. (the "Buyer"), a company affiliated with the Company's Chief Executive Officer, Roy Israel. Pursuant to the Asset Purchase Agreement, the Buyer will acquire the assets and assume all current and future liabilities and commitments of the Company's dispute resolution business (the "ADR business"). The Buyer is not paying cash to the Company but is assuming the commitments and contingencies related to the ADR business. Furthermore, Mr. Israel agreed not to trigger his change-in-control provision under his employment contract as a result of the Buyer acquiring the ADR business. Currently, if such provision was triggered upon the sale or liquidation of the ADR business, the Company would owe Mr. Israel, in one lump sum, approximately $1,015,000 as such amount represents three times his then current base salary. Additionally, the Asset Purchase Agreement provides that a minimum of $200,000 in cash is to remain with the Company. This cash will be utilized by the Company to pay for the costs associated with the sale of the ADR business, for continued public reporting obligations and to acquire a new operating business or enter into a business combination. Based on a final balance sheet that will be prepared after the closing date, the cash to be retained by the Company may increase to the extent of 60% of the excess of the Remaining Net Capital before Commitments over $380,462 as of the closing date. The Remaining Net Capital Before Commitments shall mean the fair market value of the assets purchased less the following: (a) recorded liabilities assumed; (b) commitment due to American Lawyer Media for unused advertising in the amount of $75,854 (unless such sum is already reflected in the recorded liabilities assumed) and (c) $200,000 in cash to remain with the Company (to be adjusted based on the timing of payments for the transaction costs). The transaction costs, which are to be paid by the Company with the $200,000 cash balance, is expected to include, but not be limited to, legal, accounting, tax advice, the cost of the fairness opinion and printing and mailing costs related to a proxy statement. During the three months ended September 30, 2004, the Company incurred $69,657 of such costs, which are included in Reorganization Costs on the accompanying statement of operations. At September 30, 2004, $40,154 of such amount is unpaid and included in accounts payable and accrued liabilities in the accompanying balance sheet. Furthermore, the Company will retain the OTC Bulletin Board listing which it may use to attract a potential target company.

The Board of Directors received an opinion, dated October 15, 2004, from an unrelated party, Capitalink, L.C., that, as of that date, based upon and subject to the assumptions made, matters considered and limitations on its review as set forth in the opinion, the purchase consideration is fair, from a financial point of view, to the Company's unaffiliated stockholders.

The completion of the transaction is subject to stockholder approval. There can be no assurance that the transaction will occur. If the transaction does occur, the Company will have no operating entity. Additionally, there can be no assurances that an operating entity will be acquired. If the transaction does not occur, the Board may decide to continue to operate the ADR business of the Company. If so, the near and long-term operating strategies of the Company will be focused on promoting the Company's services and patented ADR management and oversight system to increase revenue and cash flow while better positioning the Company to compete under current market conditions. The Company's capital requirements depend on several factors, including, without limitation, the rate of market acceptance of its services, its ability to maintain and expand its customer base and other factors.

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 arbitration and mediation programs and electronic oversight applications and other risks that are set forth herein.

RISK FACTORS

Our business faces risks. These risks include those described below and may include additional risks of which we are not currently aware or which we currently do not believe are material. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could be adversely affected. These risks should be read in conjunction with the other information set forth in this report.

We have Recent, and Anticipate Continuing, Losses and have Going Concern Considerations

We have incurred operating losses during the last eight years and through September 30, 2004. Going forward, we may continue to incur operating losses and make capital expenditures and, as a result, we will need to generate higher revenues to achieve and maintain profitability and provide working capital needed to fund losses. We cannot assure you that we can achieve or sustain profitability in the future. If revenues continue to decline, or if operating expenses exceed our current expectations and cannot be adjusted accordingly, the results of our operations and our financial condition may be materially and adversely affected.

The Company's independent auditors have included a going concern paragraph in their report on the June 30, 2004 consolidated financial statements which have been prepared assuming the Company will continue as a going concern. As a result of continued losses, the use of significant cash in operations and the uncertainty as to the ability to obtain stockholder approval for the asset purchase agreement and to thereafter effect a merger or a similar transaction with the intent to acquire a different operating business, there is substantial doubt about the Company's ability to continue as a going concern.

Potential Transaction may Not be Approved

On October 18, 2004, the Company entered into a definitive asset purchase agreement (the "Asset Purchase Agreement") with National Arbitration and Mediation, Inc. (the

"Buyer"), a company affiliated with the Company's Chief Executive Officer. Pursuant to the Asset Purchase Agreement, the Buyer will acquire the assets and assume all current and future liabilities and commitments of the Company's dispute resolution business (the "ADR business"). The Buyer is not paying cash to the Company but is assuming the commitments and contingencies related to the ADR business. Additionally, the Asset Purchase Agreement provides that a minimum of $200,000 in cash is to remain with the Company. This cash will be utilized by the Company to pay for the costs associated with the sale of the ADR business, for continued public reporting obligations and to acquire a new operating business.

The completion of this transaction is subject to stockholder approval. There can be no assurances that the transaction will occur. If the transaction does occur, the Company will have no operating entity. Additionally, there can be no assurances that an operating entity will be acquired or that the cash retained by the Company will be sufficient to pay for the costs associated with the sale of the ADR business, for continued public reporting obligations and to acquire a new operating business.

We Depend On Insurance-Related Disputes

The majority of our alternative dispute resolution services, or ADR services, involve claims that are usually covered by insurance. We resolve many of these disputes in a matter of hours. Since our revenues are derived primarily from certain administrative and hourly fees, a high volume of these cases is required in order for us to generate revenues sufficient to maintain our operations. Although catastrophic injury, self-insured commercial and employment initiatives represent a growing percentage of our revenues, there can be no assurance that we will be able to continue to expand our insurance and non-insurance-related dispute business, or maintain or increase our current level of cases. In addition, we cannot assure you that changes in the insurance industry will not affect our business.

Possible Improvements in the Public Court System, Including Use of ADR Services, May Affect Our Business

The ADR industry, in general, furnishes an alternative to public dispute mechanisms, principally the local, state and federal court systems. Our marketing efforts have been based on our belief that there exists a high degree of dissatisfaction among litigants and their counsel with the public court system. If the public courts, in the markets we are currently serving or seek to serve, reduce case backlogs and provide effective settlement mechanisms at no, or substantially reduced cost to litigants, our business opportunities in such markets may be significantly reduced. Several public court systems, both on the federal and state level, including certain federal and state courts located in New York State, have instituted court coordinated ADR programs. Similar programs are under consideration in a number of states and may be adopted at any time. The success of such ADR programs could have a material adverse effect on our business by diminishing the demand for private ADR services.

The Private ADR Services Business is Highly Competitive

The private ADR business is highly competitive, both on a national and regional level. Barriers to entry in the ADR business are relatively low, and new competitors can begin doing business relatively quickly. There are two types of competitors, not-for-profit and for-profit entities:

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- We believe that our largest not-for-profit competitor is the American Arbitration Association as it has significant market share in complex commercial cases.

- We believe that our largest for-profit competitor is JAMS.

At this time, we believe that numerous other private ADR firms are competing with us in the regions we currently serve. Increased competition could decrease the fees we are able to charge for our services and limit our ability to obtain qualified hearing officers. This could have a material adverse effect on our ability to be profitable in the future. Certain competitors may have greater financial or other capabilities than us. Accordingly, there is no assurance that we can successfully compete in the present or future marketplace for ADR services.

We Depend Upon Our Key Personnel

Our success will be largely dependent on the personal efforts of Roy Israel, our Chief Executive Officer, President and Chairman of the Board of Directors. Although we have entered into an employment agreement with Mr. Israel, which expires in 2007, the loss of his services could have a material adverse effect on our business and prospects. We have obtained "key-man" life insurance on the life of Mr. Israel. The Company is the sole beneficiary in the amount of $1 million. Our success is also dependent upon our ability to hire and retain qualified marketing and other personnel in our offices. We may not be able to hire or retain such necessary personnel.

We Do Not Have Written Contracts with the Majority of Our Clients

We currently rely on our marketing efforts and relationships with insurance companies, law firms, corporations and municipalities to obtain cases. We do not have written agreements with the majority of our clients, but we have instituted the process of obtaining written agreements with our existing clients and with new clients. We also rely on case referrals from our current clients. We may not continue to receive our current level of, or an adequate level of, referrals of cases. If we do not maintain such levels, there could be a material adverse effect on our business.

We Depend Upon Qualified Hearing Officers

The market for our services depends on a perception by our clients that our hearing officers are impartial, qualified, and experienced. Our ability to retain qualified hearing officers in the event that competition increases would be uncertain. We have mitigated this risk by retaining exclusive hearing officers. Of the total number of cases heard during the fiscal year ended June 30, 2004, approximately 67% were heard by exclusive hearing officers. Accordingly, at any time, the remaining hearing officers who are not under contract with us can refuse to continue to provide their services to us and are free to render services independently or through competing ADR services. If qualified hearing officers are unwilling or unable to continue to provide their services through us for any reason, including possible agreements to provide their services to our competitors on an exclusive basis, our business and operations could be materially and adversely affected.

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Our Current Stockholders Have the Ability to Exert Significant Control

Our executive officers, directors, and their affiliates beneficially own 3,755,136 shares or approximately 44.4% of the common stock outstanding based on 8,449,056 shares of common stock outstanding as of November 11, 2004. Of that number, Mr. Israel beneficially owns 2,410,278 shares or approximately 28.5% of the common stock. As a result, these stockholders acting in concert may have significant influence on votes to elect or remove any or all of our directors and to control substantially all corporate activities in which we are involved, including tender offers, mergers, proxy contests or other purchases of common stock that could give our stockholders the opportunity to realize a premium over the then prevailing market price for their shares of common stock.

We May Be Unable to Protect Our Proprietary Technology and We May Be Sued for Infringing on the Rights of Others

Our success depends, in part, upon our ability to protect our proprietary software technology and operate without infringing upon the rights of others. We rely on a combination of methods to protect our proprietary intellectual property, technology and know-how, such as:

- trade secret laws
- trademark law
- contractual provisions
- certain technology and security measures
- copyright law
- patent law
- confidentiality agreements

The steps we have taken regarding our proprietary technology, however, may be insufficient to deter misappropriation.

In the systems and software industries, it is common that companies receive notices from time to time alleging infringement of patents, copyrights or other intellectual property rights of others. We may from time to time be notified of claims that we may be infringing upon patents, copyrights or other intellectual property rights owned by third parties. Companies may pursue claims against us with respect to the alleged infringement of patents, copyrights or other intellectual property rights owned by third parties. Although we believe we have not violated or infringed upon any intellectual property patents and have taken measures to protect our own rights, there is no assurance that we will avoid litigation. Litigation may be necessary to protect our intellectual property rights and trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against third party claims of invalidity. Any litigation could result in substantial costs and diversion of resources away from the day-to-day operation of our business.

Existing copyright, trademark, patent and trade secret laws afford only limited protection. Existing laws, in combination with the steps we have taken to protect our proprietary rights, may be inadequate to prevent misappropriation of our technology or other proprietary rights. Also, such protections do not preclude competitors from independently developing products with functionality or features similar or superior to our products and technologies.

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Our common stock is no longer listed on The Nasdaq SmallCap Market

On March 5, 2003, The Nasdaq Listing Qualifications Panel delisted our common stock from The Nasdaq SmallCap Market. Since that date, trading in our securities has been conducted in the over-the-counter market in the NASD's OTC Electronic Bulletin Board. As a result, an investor may find it more difficult to purchase, dispose of and obtain accurate quotations as to the value of our securities.

In addition, as the trading price of our common stock has been less than $5.00 per share, trading in our common stock is also subject to the requirements of Rule 15g-9 under the Securities Exchange Act of 1934. Under that rule, broker/dealers who recommend such low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including (a) a requirement that they make an individualized written suitability determination for the purchaser and (b) receive the purchaser's written consent prior to the transaction.

The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosure in connection with any trades involving a stock defined as a penny stock (generally, any equity security not traded on an exchange or quoted on The Nasdaq SmallCap Market that has a market price of less than $5.00 per share), including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith. Such requirements could severely limit the market liquidity of our securities and the ability of stockholders to sell their securities in the secondary market.

GENERAL

We provide alternative dispute resolution services, or ADR services, to insurance companies, law firms, corporations and municipalities. 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. Furthermore, we believe that there is greater market acceptance of the utilization of ADR services as opposed to the sole use of the traditional litigation process. We believe that with our roster of qualified hearing officers, administrative capabilities, electronic oversight applications, knowledge of dispute resolution and reputation within the corporate and legal communities, we are uniquely positioned to provide a comprehensive total solution to disputing parties.

We opened for business in March 1992 in New York and currently operate from locations in New York and Massachusetts.

We provide services and technology designed to enhance and streamline the traditional and often time-consuming and expensive legal process. We offer highly qualified hearing officers, premium services and innovative solutions designed to appeal to a client base which has become more sophisticated with the continuing acceptance and utilization of ADR. In July 2004, we received a patent in the United States and in Australia on our inventions relating to dispute resolution processing and oversight. This electronic invention, comprised of both a management and a reckoning module, provides unique access to oversee arbitration and mediation initiatives. The management module is configured to receive, sort and store dispute resolution data and to provide an internal continuous compilation of such data and new data generated during non-judicial dispute resolution procedures.

We believe that our marketing efforts going forward will best be directed towards large-scale applications that benefit from our proprietary electronic infrastructure. As such, our marketing emphasis will be driven by our unique capabilities as an administrator. Additionally, the staff presently dedicated to our existing client base will be charged with growing our business and exploiting our inherent market advantages. Therefore, our plan is as follows: (1) exploit 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, law firms and agencies and (ii) targeting revenue opportunities related to our various technology-based solutions; (2) continue to attract and retain the services of highly talented, former top-tier judges and attorneys to act as independent and impartial hearing officers; and (3) broaden the type and complexity of the dispute resolution cases we administer.

In our current environment, corporate governance, integrity of process and transparency have taken center stage in how corporations, municipalities and other entities are to conduct operations. Our suite of services, particularly those related to oversight applications, can enhance business practices by enabling our clients to better manage their operations through data driven features and, at the same time, produce cost savings 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) a possible decline in revenues due to the consolidation in the insurance industry as well as perceived changes in their claims-settling philosophy which effectively slows down the submission of cases for ADR and (b) the costs associated with having our common stock publicly traded.

First Quarter Ended September 30, 2004 Compared to First Quarter Ended September 30, 2003

Revenues. Revenues decreased 22.0% to $770,394 for the three months ended September 30, 2004 from $987,786 for the three months ended September 30, 2003. The decline is primarily due to a decrease in the number of cases heard between the periods as well as a decrease in the average dollars earned per hearing. We believe our revenue continues to be adversely affected by the consolidation and turmoil in the insurance industry, which represents a major portion of our clientele. Additionally, insurance companies in general and some, in particular, have changed their claims-settling philosophies. Currently, we perceive that many of the larger insurance companies are taking a harder line with the plaintiff bar. This results in a slow down in the number of cases being submitted to ADR. This adversely affects the number of cases submitted to our forum. In a broader sense, we believe that lawsuits continue to be commenced and that our services should prove to be vital to insurers in their ability to address a growing caseload with reduced costs, but the timing of such may be delayed.

Cost of Services. Cost of services decreased 23.7% to $166,736 for the first quarter ended September 30, 2004 from $218,407 for the first quarter ended September 30, 2003. Additionally, the cost of services as a percentage of revenues declined slightly from 22.1% for the prior year quarterly period to 21.6% for the current year quarterly period. The ratio of cost of services to revenues will fluctuate based on the type of cases administered, 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.

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Sales and Marketing. Sales and marketing costs decreased 21.6% to $253,597 for the first quarter ended September 30, 2004 from $323,502 for the first quarter ended September 30, 2003. Sales and marketing costs as a percentage of revenues increased slightly to 32.9% in the first quarter of fiscal year 2005 from 32.8% in the first quarter of fiscal year 2004. Most of the decrease (approximately $56,200) relates to advertising costs. Our initial agreement with American Lawyer Media, Inc., which provided us with $1,000,000 of advertising and promotional opportunities in their national and regional publications over a two-year period, ended in August 2002. As part of our agreement, as amended, with American Lawyer Media, Inc., we agreed to purchase an additional $250,000 of advertising. Such advertising is to be expended from May 2003 through December 2004. During the three months ended September 30, 2004 and 2003, we incurred $0 and $49,015, respectively, of advertising expense related to this commitment. The remainder of the decrease in sales and marketing costs pertained primarily to salaries and related costs, travel and entertainment and promotions which, in the aggregate, decreased by approximately $13,700.

General and Administrative. General and administrative costs decreased 18.8% to $508,964 for the first quarter ended September 30, 2004 from $626,419 for the first quarter ended September 30, 2003. Most of the decrease (approximately $91,400) relates to employee costs and related items (including benefits, payroll taxes and outside services). Employee costs declined as, due to our electronic case administration system, we required fewer personnel in our information technology department and for other administrative functions. In prior years, costs had increased in these areas to further develop the Company's proprietary computer systems, for which a patent was granted in July 2004. Additionally, as of July 14, 2004, those employees earning in excess of $100,000 voluntarily agreed to a 15% reduction in their salary. Further, we incurred lower charges in the amount of approximately $28,100 for depreciation, printing, insurance, contributions and supplies. The Company is no longer recording depreciation expense as the Company has recorded a loss from impairment on its furniture and equipment equal to its net book value. General and administrative costs as a percentage of revenues increased to 66.1% for the first quarter ended September 30, 2004 from 63.4% for the first quarter ended September 30, 2003.

Loss on Impairment of Furniture and Equipment. As of June 30, 2004, we recorded a loss on the impairment of furniture and equipment equal to its net book value due to uncertainty as to the Company's ability to continue as a going concern. In the first quarter of fiscal year 2005, we recorded an additional loss on impairment equal to the price paid for furniture and equipment purchased during the quarter. See Liquidity and Capital Resources below. No similar loss was recognized in the prior year period.

Reorganization Costs. During the quarter ended September 30, 2004, the Company incurred $69,657 in costs related to services rendered in connection with the proposed transaction to sell the Company's ADR business to a company affiliated with the current Chief Executive Officer. These costs include professional fees to an investment banking firm and legal fees. An investment banking firm was hired by the disinterested members of the Board of Directors to opine as to whether or not the terms of the proposed transaction was fair, from a financial point of view, to the unaffiliated stockholders.

Other Income. Other income declined from $69,774 for the first quarter ended September 30, 2003 to $49,149 for the first quarter ended September 30, 2004. Other income is composed primarily of investment income and realized gains (losses) generated from investments. Realized gains were $45,701 in the first quarter of fiscal year 2005 versus $66,157 in the first quarter of fiscal year 2004, resulting in a decline of $20,456. During the first quarter of fiscal year 2005, the Company sold its entire portfolio of marketable securities which resulted in the

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aforementioned gain. Net interest income generated primarily from investments in money market funds and certificates of deposit declined by $104.

Income Taxes. Tax benefits resulting from net losses incurred for the periods ended September 30, 2004 and 2003 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 September 30, 2004, we had a net loss of $180,477 as compared to a net loss of $110,768 for the three months ended September 30, 2003. The loss rose principally due to a decline in revenues as the number of cases heard and the average dollars earned per case decreased between the periods, due to lower realized gains from investments and due to reorganization costs incurred in the current period related to the proposed sale of the ADR business, offset by reductions in operating costs and expenses.

Liquidity and Capital Resources

At September 30, 2004, the Company had a working capital surplus of $681,955 compared to $913,854 at June 30, 2004. The decrease in working capital occurred primarily as a result of the loss from operations.

Net cash used in operating activities was $94,455 for the three months ended September 30, 2004 versus $61,780 in the prior comparable period. Cash used in operating activities principally increased due to a higher loss from operations offset by changes in operating assets and liabilities.

Net cash provided by investing activities was $330,404 for the three months ended September 30, 2004 versus net cash used in investing activities of $82,528 in the comparable prior period. The change in cash from investing activities was primarily due to the fact that the Company sold all of its marketable securities during the current quarter, the proceeds of which were invested primarily in money market funds.

There were no financing activities during the three months ended September 30, 2004 and 2003.

In accordance with the terms of our August 2000 advertising agreement, as amended, with American Lawyer Media, Inc., we agreed to purchase an additional $250,000 of advertising. During the three months ended September 30, 2004 and 2003, we incurred $0 and $49,015, respectively, of advertising expenses related to this commitment. The remaining commitment outstanding as of September 30, 2004 is $75,854 which is to be expended by December 31, 2004.

We have incurred net losses and had negative cash flow from operations during the last eight years and through September 30, 2004. Cash and cash equivalents arising principally from equity transactions have provided sufficient working capital to fund losses incurred and capital expenditures, as well as to provide cash to redeem preferred stock outstanding and to purchase treasury stock. As of September 30, 2004, we had $1,166,818 in aggregate cash, cash equivalents and certificates of deposit.

In July 2004, our Board of Directors decided to explore strategic alternatives for the Company in an effort to protect shareholder value. As a result of the numerous scandals in recent years and the passing of the Sarbanes-Oxley Act of 2002 to safeguard shareholders, micro-

cap companies such as ours are faced with mounting legal and audit fees to meet the new compliance requirements now needed to remain as a publicly traded entity. In addition to being expensive in terms of out-of-pocket expenditures, these requirements are costly in that they are time-consuming and place a strain on our limited personnel resources. While we remain optimistic about the need for the Company's services, we believe that the unavoidability of these escalating costs shortens the timeframe that the Company needs in order to realize revenues from many of its sales and marketing initiatives. Further, we believe our revenue has been and will continue to be adversely affected by the consolidation and turmoil in the insurance industry, which represents a major portion of our clientele. Additionally, insurance companies in general and some, in particular, have changed their claims-settling philosophies. Currently, we perceive that many of the larger insurance companies are taking a harder line with the plaintiff bar. This results in a slow down in the number of cases being submitted to ADR. This adversely affects the number of cases referred to our forum. In a broader sense, we believe that lawsuits continue to be commenced and that our services should prove to be vital to insurers in their ability to address a growing caseload with reduced costs, but the timing of such may be delayed.

On October 18, 2004, the Company entered into a definitive asset purchase agreement with National Arbitration and Mediation, Inc., a company affiliated with the Company's Chief Executive Officer. Pursuant to the Asset Purchase Agreement, the Buyer will acquire the assets and assume all current and future liabilities and commitments of the Company's ADR business. The Buyer is not paying cash to the Company but is assuming the commitments and contingencies related to the ADR business. Furthermore, Mr. Israel agreed not to trigger his change-in-control provision under his employment contract as a result of the Buyer acquiring the ADR business. Currently, if such provision was triggered upon the sale or liquidation of the ADR business, the Company would owe Mr. Israel, in one lump sum, approximately $1,015,000 as such amount represents three times his then current base salary. Additionally, the Asset Purchase Agreement provides that a minimum of $200,000 in cash is to remain with the Company. This cash will be utilized by the Company to pay for the costs associated with the sale of the ADR business, for continued public reporting obligations and to acquire a new operating business or enter into a business combination. Based on a final balance sheet that will be prepared after the closing date, the cash to be retained by the Company may increase to the extent of 60% of the excess of the Remaining Net Capital before Commitments over $380,462 as of the closing date. The Remaining Net Capital Before Commitments shall mean the fair market value of the assets purchased less the following: (a) recorded liabilities assumed; (b) commitment due to American Lawyer Media for unused advertising in the amount of $75,854 (unless such sum is already reflected in the recorded liabilities assumed) and (c) $200,000 in cash to remain with the Company (to be adjusted based on the timing of payments for the transaction costs). The transaction costs, which are to be paid by the Company with the $200,000 cash balance, is expected to include, but not be limited to, legal, accounting, tax advice, the cost of the fairness opinion and printing and mailing costs related to a proxy statement. During the three months ended September 30, 2004, the Company incurred $69,657 of such costs, which are included in Reorganization Costs on the accompanying statement of operations. At September 30, 2004, $40,154 of such amount is unpaid and included in accounts payable and accrued liabilities in the accompanying balance sheet. Furthermore, the Company will retain the OTC Bulletin Board listing which it may use to attract a potential target company.

The Board of Directors received an opinion, dated October 15, 2004, from an unrelated party, Capitalink, L.C., that, as of that date, based upon and subject to the assumptions made, matters considered and limitations on its review as set forth in the opinion, the purchase consideration is fair, from a financial point of view, to the Company's unaffiliated stockholders. Capitalink, L.C. is an investment-banking firm that is regularly engaged in the evaluation of

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businesses and their securities in connection with mergers, acquisitions, corporate restructurings and private placements.

The completion of the transaction is subject to stockholder approval. There can be no assurances that the transaction will occur. If the transaction does occur, the Company will have no operating entity. Additionally, there can be no assurances that an operating entity will be acquired. If the transaction does not occur, the Board may decide to continue to operate the ADR business of the Company. If so, our near and long-term operating strategies will focus on promoting our services and our patented ADR management and oversight system to increase our revenue and cash flow while better positioning the Company to compete under current market conditions. The Company's capital requirements depend on several factors, including, without limitation, the rate of market acceptance of our services, our ability to maintain and expand our customer base and other factors.

As a result of continued losses, the use of significant cash in operations and the uncertainty as to the ability to obtain stockholder approval for the Asset Purchase Agreement and to thereafter effect a merger or a similar transaction with the intent to acquire a different operating business, there is substantial doubt about the Company's ability to continue as a going concern. The Company's independent auditors have included a going concern paragraph in their report on the June 30, 2004 consolidated financial statements which have been prepared assuming the Company will continue as a going concern. Accordingly, the accompanying consolidated financial statements do not include any adjustments that may result should the Company be unable to continue as a going concern.

Controls and Procedures

Our disclosure controls and procedures are designed to ensure that material information relating to the Company are made known to our Chief

Executive Officer ("CEO"), Chief Financial Officer ("CFO") and others in the Company involved in the preparation of this quarterly report, by others within the Company. Our CEO and CFO have reviewed our disclosure controls and procedures within 90 days prior to the filing of this quarterly report and have concluded that they are effective. There were no significant changes in our internal controls or other factors that could significantly affect our internal controls subsequent to the last date they were reviewed by our CEO and CFO.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 2. Changes in Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Submission of matters to a Vote of Security Holders.

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 (a)	Certificate of Incorporation, as amended (1)
3.1 (b)	Certificate of Designation of Series A Exchangeable Preferred Stock (5)
3.1 (c)	Certificate of Correction of Certificate of Designation of Series A Exchangeable Preferred Stock (6)
3.1 (d)	Certificate of Amendment of Certificate of Incorporation (8)
3.1 (e)	Certificate of Amendment of Certificate of Incorporation, as amended (11)
3.1 (f)	Certificate of Amendment of Certificate of Incorporation, second amendment (14)
3.2	By-Laws of the Company, as amended (3)
4.1	Stock Purchase Agreement dated May 10, 2000 (7)

4.2	Stock Purchase Warrant dated May 10, 2000 (7)
4.3	Exchangeable Preferred Stock and Warrants Purchase Agreement (5)
10.1	1996 Stock Option Plan, amended and restated (3)
10.2	Employment Agreement between Company and Roy Israel effective July 1, 2002 (12)
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 (4)
10.7.2	Second Amendment to Lease Agreement for Great Neck, New York facility (10)
10.14	Advertising Agreement dated August 11, 2000 (9)
10.14.1	Amendment to Advertising Agreement dated August 11, 2000 (13)
10.14.2	Second Amendment to Advertising Agreement dated August 11, 2000 (14)
10.14.3	Third Amendment to Advertising Agreement dated August 11, 2000 (15)
10.15	Employment Agreement between Company and Alan Littman (13)
10.16	Asset Purchase Agreement dated October 18, 2004 (16)
31.1	Rule 13a-14(a)/15d-14(a) Certification (CEO)**
31.2	Rule 13a-14(a)/15d-14(a) Certification (CFO)**
32.1	Section 1350 Certification (CEO)**
32.2	Section 1350 Certification (CFO)**

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(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 1998 Annual Report on Form 10-KSB.

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

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

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

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

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

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

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

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

(12) Incorporated herein in its entirety by reference to the Company's 2002 Annual Report on Form 10-KSB.

(13) Incorporated herein in its entirety by reference to the Company's 2003 Annual Report on Form 10-KSB.

(14) Incorporated herein in its entirety by reference to the Company's Quarterly Report for the quarter ended December 31, 2003 on Form 10-QSB.

(15) Incorporated herein in its entirety by reference to the Company's 2004 Annual Report on Form 10-KSB.

(16) Incorporated herein in its entirety by reference to the Company's Form 8-K filed on October 20, 2004.

** Filed herewith.

(b) Reports on Form 8-K.

Form 8-K was filed on September 29, 2004 by the Company to announce its revenues and results for the fourth quarter and year ended June 30, 2004. Form 8-K was filed on October 20, 2004 to announce that the Company entered into a definitive asset purchase agreement with National Arbitration and

Mediation, Inc., a company affiliated with the Company's Chief Executive Officer, pursuant to which the buyer would acquire the assets and assume all current and future liabilities of the Company's dispute resolution business.

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: November 11, 2004

By: /s/ Roy Israel
Roy Israel, President and CEO

Date: November 11, 2004

By: /s/ Patricia A. Giuliani-Rheaume
Patricia A. Giuliani-Rheaume, Vice President, Treasurer and CFO