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CLICKNSETTLE COM INC  
Form 10QSB  
November 14, 2003

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

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FORM 10-QSB

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

For the quarterly period ended September 30, 2003

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, 2003, 1,408,176 shares of common stock of the issuer were outstanding.

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

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

	September 30, 2003	J
	-----	---
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,654,478	\$
Marketable securities	283,670	
Accounts receivable (net of allowance for doubtful accounts of \$140,000)	339,562	
Prepaid expenses and other current assets (net of allowance for doubtful note receivable of \$48,848 and \$49,148, respectively)	35,026	
	-----	---
Total current assets	2,312,736	
FURNITURE AND EQUIPMENT - AT COST, less accumulated depreciation	128,066	
OTHER ASSETS	42,975	
	-----	---
	\$ 2,483,777	\$
	=====	===

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

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Accounts payable	\$ 195,885	\$
Accrued expenses and other liabilities	279,857	
Accrued payroll and employee benefits	219,512	
Deferred revenues	264,535	
	-----	-----
Total current liabilities	959,789	
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - \$.001 par value; 15,000,000 shares authorized; 1,450,259 shares issued and outstanding	1,450	
Additional paid-in capital	10,111,577	1
Accumulated deficit	(8,505,015)	(
Accumulated other comprehensive income (loss)	(106)	
Less common stock in treasury at cost, 42,083 shares	(83,918)	
	-----	-----
Total stockholders' equity	1,523,988	
	-----	-----
	\$ 2,483,777	\$
	=====	=====

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 September 30,	
	2003	2002
	-----	-----
Net revenues	\$ 987,786	\$ 993,359
	-----	-----
Operating costs and expenses		
Cost of services	218,407	228,926
Sales and marketing expenses	323,502	308,967
General and administrative expenses	626,419	653,800
	-----	-----
	1,168,328	1,191,693
	-----	-----
Loss from operations	(180,542)	(198,334)
Other income (expenses)		
Investment income (loss)	69,196	(12,356)
Other income	578	1,355
	-----	-----
	69,774	(11,001)

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Loss before income taxes	(110,768)	(209,335)
Income taxes	--	--
NET LOSS	\$ (110,768)	\$ (209,335)
Net loss per common share - basic and diluted	\$ (0.08)	\$ (0.15)
Weighted-average shares outstanding - basic and diluted	1,408,176	1,408,176

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, 2003 and 2002 (unaudited)

	Common stock		Additio
	Shares	Amount	paid-i capita
Balances at June 30, 2002	1,450,259	\$ 1,450	\$10,111,
Compensation related to stock options			
Net loss			
Change in unrealized gain (loss) on marketable securities			
Comprehensive loss			
Balances at September 30, 2002	1,450,259	\$ 1,450	\$10,111,
Balances at June 30, 2003	1,450,259	1,450	10,111,
Net loss			
Change in unrealized gain (loss) on marketable securities			
Comprehensive loss			
Balances at September 30, 2003	1,450,259	\$ 1,450	\$10,111,

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	Accumulated other comprehensive income (loss)	Common stock in treasury	To stock equity
Balances at June 30, 2002	(\$ 21,114)	(\$ 83,918)	\$ 2,0
Compensation related to stock options			
Net loss			(2)
Change in unrealized gain (loss) on marketable securities	(56,733)		(
Comprehensive loss			
Balances at September 30, 2002	(\$ 77,847)	(\$ 83,918)	\$ 1,8
Balances at June 30, 2003	43,960	(83,918)	1,6
Net loss			(1
Change in unrealized gain (loss) on marketable securities	(44,066)		(
Comprehensive loss			
Balances at September 30, 2003	(\$106)	(\$ 83,918)	\$ 1,5

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,

	2003
Cash flows from operating activities	
Net loss	\$ (110,768)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation and amortization	17,770
(Gains) on sales of marketable securities	(66,157)
Write-down of marketable securities	--
Advertising in exchange for common stock	--
Compensation related to stock options	--
Recovery from write-down of note receivable	(300)
Changes in operating assets and liabilities	

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Decrease in accounts receivable	96,105
Decrease in prepaid expenses and other current assets	5,099
(Decrease) in accounts payable, accrued expenses and other liabilities	(77,294)
Increase in accrued payroll and employee benefits	78,207
(Decrease) increase in deferred revenues	(4,442)
	-----
Net cash used in operating activities	(61,780)
	-----
Cash flows from investing activities	
Purchases of marketable securities	(545,799)
Proceeds from sales of marketable securities	465,283
Purchases of furniture and equipment	(2,012)
	-----
Net cash used in investing activities	(82,528)
	-----
Cash flows from financing activities	
	-----
Net cash used in financing activities	--
	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(144,308)
Cash and cash equivalents at beginning of period	1,798,786
	-----
Cash and cash equivalents at end of period	\$ 1,654,478
	=====

The accompanying notes are an integral part of these statements.

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### CLICKNSETTLE.COM, INC. and SUBSIDIARIES

#### Notes to Consolidated Financial Statements Three months ended September 30, 2003 (Unaudited)

1. The consolidated balance sheet as of September 30, 2003 and the related consolidated statements of operations for the three month periods ended September 30, 2003 and 2002 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, 2003 and for all periods presented, consisting of normal recurring adjustments, have been made. Results of operations for the three month period ended September 30, 2003 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, 2003 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, 2003 consolidated financial statements.

2. Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted

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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 1,004,940 and 666,271 at September 30, 2003 and 2002, respectively, would be antidilutive as the Company incurred net losses for the three month periods ended September 30, 2003 and 2002.

3. The cost of advertising is expensed when the advertising takes place. For advertising and external public relations costs, the Company incurred \$58,096 and \$25,861 for the quarters ended September 30, 2003 and 2002. Of such totals, non-cash advertising charges comprise \$0 and \$18,285, respectively, for the first quarter of fiscal years 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 June 2004. During the quarter ended September 30, 2003, the Company incurred \$49,015 of advertising expense related to this commitment. The remaining commitment outstanding as of September 30, 2003 is \$178,150.

4. On March 14, 2003, 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, 2004, 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, 2003, and, through September 30, 2003, the Company had purchased 42,083 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

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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. 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.

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	Three months ended September 30,	
	2003	2002
	----	----
Net loss, as reported	\$ (110,768)	\$ (209,335)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(40,638)	(142,887)
	-----	-----
Proforma net loss	\$ (151,406)	\$ (352,222)
	-----	-----
Net loss per common share:		
Basic and diluted - as reported	\$ (0.08)	\$ (0.15)
Basic and diluted - pro forma	\$ (0.11)	\$ (0.25)

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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 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

We have incurred operating losses during the last seven years and through September 30, 2003. 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 grow slower than we anticipate, or if operating expenses exceed our current expectations and cannot be adjusted accordingly, our business, the results of our operations and our financial



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condition may be materially and adversely affected.

### 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.

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### 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:

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

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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.

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### 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, 2003, approximately 66% 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.

### Our Current Stockholders Have the Ability to Exert Significant Control

Our executive officers, directors, and their affiliates beneficially own 625,856 shares or approximately 44.4% of the common stock outstanding based on 1,408,176 shares of common stock outstanding as of November 6, 2003. Of that number, Mr. Israel beneficially owns 401,713 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

copyright law

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trademark law	patent law
contractual provisions	confidentiality agreements
certain technology and security measures	

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

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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.

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 to 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 15c-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

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We provide alternative dispute resolution services, or ADR services, to insurance companies, law firms, corporations and municipalities. We focus the majority of our marketing

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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 and a positive trend relating to the utilization of ADR services as opposed to the traditional litigation process. The variety, complexity and volume of cases being submitted for ADR are illustrative and, we believe, accurate barometers of the integration of ADR into the legal landscape. Further, we see this trend continuing. We believe that with our global 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 worldwide.

We currently operate from locations in New York and Massachusetts.

Our objective is to become the leading global provider of dispute resolution services by providing services and technology designed to enhance and streamline the traditional and often time-consuming and expensive legal process. We believe we are uniquely positioned within the ADR industry as 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. We have a patent pending on our inventions relating to dispute resolution processing and oversight. Additionally, depending upon market acceptance, we will review the needs of our current and prospective customers and offer those solutions that we believe will be of most value to our clients and to our shareholders. 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) build brand recognition of NAM (National Arbitration and Mediation) as the premier provider of dispute resolution solutions through our advertising campaign; (3) 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 (4) broaden the type and complexity of the dispute resolution cases we administer.

With the recent string of corporate failures and scandals, it is likely that individuals and groups will seek retribution via a legal outlet. At the same time, a greater emphasis has been placed on the protection of investors, employees and other groups as evidenced by many new proposed and adopted corrective actions and laws. The confluence of the above in conjunction with the current economic slowdown creates a fertile environment for our services, particularly those related to oversight applications that can uniquely address and facilitate many of these areas of concern. Our suite of services 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

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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 enhancements and other costs associated with our investment in technology and (b) our advertising expenses. Our advertising campaign commenced in August 2000 when we signed an agreement with American Lawyer Media, Inc., the nation's leading legal journalism and information

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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). At the time this advertising was contracted for, we were promoting our new corporate name, clickNsettle.com, as well as continuing to promote our established brand name, NAM (National Arbitration and Mediation). We believe that NAM is a proven and well-respected brand in the ADR industry. 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 June 2004. However, we currently anticipate that, at the conclusion of our present campaign, we will reduce our advertising expenses and we believe our revenues will not be adversely impacted.

First Quarter Ended September 30, 2003 Compared to First Quarter Ended September 30, 2002

Revenues. Revenues remained at a comparable level with a small decrease of \$5,573 from \$993,359 for the quarter ended September 30, 2002 to \$987,786 for the quarter ended September 30, 2003. Likewise, the number of cases heard and the average dollars earned per hearing were relatively consistent between the periods. 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 and increased efficiency. We believe our services will benefit clients as they seek to optimize efficiencies in the litigation process in order to improve their own financial outlook as, due to low interest rates, insurers cannot rely on investment income to offset operational and indemnity expenses. Additionally, plaintiffs benefit from a speedier resolution of their claims which is of greater importance in difficult economic times.

Cost of Services. Cost of services decreased 4.6% to \$218,407 for the first quarter ended September 30, 2003 from \$228,926 for the first quarter ended September 30, 2002. Additionally, the cost of services as a percentage of revenues decreased to approximately 22.1% in the first quarter of fiscal year 2004 from 23.0% in the first quarter of fiscal year 2003. 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.

Sales and Marketing. Sales and marketing costs increased 4.7% to \$323,502 for the first quarter ended September 30, 2003 from \$308,967 for the first quarter ended September 30, 2002. Sales and marketing costs as a percentage of revenues increased to 32.8% in the first quarter of fiscal year 2004 from 31.1% in the first quarter of fiscal year 2003. Most of the increase (approximately \$32,200) 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. The related non-cash amount expensed for the quarters ended September 30, 2003 and 2002 was \$0 and \$18,285, respectively.

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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 June 2004. During the three months ended September 30, 2003, we incurred \$49,015 of advertising expense related to this commitment. Offsetting this increase was a decrease in salaries and related costs of approximately \$19,900.

General and Administrative. General and administrative costs decreased 4.2% to \$626,419 for the first quarter ended September 30, 2003 from \$653,800 for the first quarter ended September 30, 2002. Most of the decrease (approximately \$33,100) relates to employee costs and related items (including benefits, payroll taxes, employee recruitment and

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outside services), legal and rent expense. Offsetting the above decreases was an increase in printing expenses totaling approximately \$5,100. General and administrative costs as a percentage of revenues decreased to 63.4% for the first quarter ended September 30, 2003 from 65.8% for the first quarter ended September 30, 2002.

Other Income (Expenses). Other income (expenses) changed from an expense of \$11,001 for the first quarter ended September 30, 2002 to income of \$69,774 for the first quarter ended September 30, 2003. 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) was \$20,119 in the first quarter of fiscal year 2003 versus realized gains of \$66,157 in the first quarter of fiscal year 2002, resulting in an improvement of \$86,276. As an offset, net interest income generated primarily from investments in money market funds declined by \$4,724 from \$7,763 in the prior year period due to lower invested balances and due to low interest rates. At September 30, 2003, approximately 84% of cash equivalents and marketable securities were invested in money market funds (whose rate of return will fluctuate based on prevailing interest rates).

Income Taxes. Tax benefits resulting from net losses incurred for the periods ended September 30, 2003 and 2002 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, 2003, we had a net loss of \$110,768 as compared to a net loss of \$209,335 for the three months ended September 30, 2002. The loss declined principally due to reductions in cost of services and administrative expenses and due to improved investment results, offset by an increase in advertising costs.

### Liquidity and Capital Resources

At September 30, 2003, the Company had a working capital surplus of \$1,352,947 compared to \$1,492,023 at June 30, 2003. The decrease in working capital occurred primarily as a result of the loss from operations.

Net cash used in operating activities was \$61,780 for the three months ended September 30, 2003 versus \$129,618 in the prior comparable period. Cash used in operating activities principally declined due to a reduction in the loss from operations as well as changes in operating liabilities.

Net cash used in investing activities was \$82,528 for the three months ended September 30, 2003 versus \$56,947 in the comparable prior period. The

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change in cash from investing activities was primarily due to a higher level of net purchases of marketable securities in the current period.

There were no financing activities during the three months ended September 30, 2003 and 2002.

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. Such advertising is to be expended from May 2003 through June 2004. During the three months ended September 30, 2003, we incurred \$49,015 of advertising expenses related to this commitment. The remaining commitment outstanding as of September 30, 2003 is \$178,150.

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We have incurred net losses and had negative cash flow from operations during the last seven years and through September 30, 2003. 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, 2003, we had \$1,654,478 in aggregate cash and cash equivalents. We believe that, through the proper use of these existing funds, from revenue generated from existing and new web-based services and from further efficiencies achieved by utilizing an enhanced processing system, we will have sufficient cash to meet our needs over the next twelve months.

### 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.

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### 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.

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(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 (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)
3.2	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)
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	Third Amendment to Lease Agreement for Great Neck, New York facility (10)
10.8	Exchangeable Preferred Stock and Warrants Purchase Agreement (5)
10.9	Preferred Stock Registration Rights Agreement (5)
10.11	Private Equity Line of Credit Agreement between Moldbury Holdings and Company (5)
10.12	Private Equity Line of Credit Registration Rights Agreement (5)
10.13	Stock Purchase Warrant for Moldbury Holdings Limited (5)
10.14	Advertising Agreement dated August 11, 2000 (9)
10.14.1	Amendment to Advertising Agreement dated August 11, 2000 (13)
10.15	Employment Agreement between Company and Alan Littman (13)
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.

\*\* Filed herewith.

(b) Reports on Form 8-K.

Form 8-K was filed on September 25, 2003 by the Company to announce its revenues and results for the fourth quarter and year ended June 30, 2003

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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, 2003

By: /s/ Roy Israel

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Roy Israel, President and CEO

Date: November 11, 2003

By: /s/ Patricia A. Giuliani-Rheaume

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