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CLICKNSETTLE COM INC
Form 10KSB
October 06, 2005

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

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2005

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

Commission File Number: 0-21419

clickNsettle.com, Inc.
(Name of small business issuer as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

23-2753988
(IRS Employer
Identification No.)

990 Stewart Avenue, First Floor
GARDEN CITY, NEW YORK 11530
(Address of Principal Executive Offices)

(516) 794-8950
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

| Title of each class ----- | Name of each exchange on which registered ----- |
|-------------------------------|--|
| Common Stock \$.001 Par Value | Over-the-Counter Bulletin Board |

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this Form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-KSB or any amendments to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

State issuer's revenues for its most recent fiscal year. \$1,808, 400 through

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January 13, 2005 when the Company's sole operating business was sold

The aggregate market value of the voting stock held by non-affiliates per the closing stock price of September 22, 2005 is \$664,477.

As of September 22, 2005, 9,929,056 shares of common stock of the issuer were outstanding.

Transitional Small Business Disclosure Format Yes No

DOCUMENTS INCORPORATED BY REFERENCE

Part I. -- None Part II. -- None
Part III. -- None

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PART I

From time to time, including in this annual report on Form 10-KSB, clickNsettle.com, Inc. (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.

ITEM 1. DESCRIPTION OF BUSINESS

The Company

The Company was formed on January 12, 1994 under the laws of the State of Delaware. On October 31, 1994, we acquired all of the outstanding common stock of National Arbitration & Mediation, Inc. ("NA&M"), a New York corporation, formed on February 6, 1992, which was primarily owned by our Chief Executive Officer and President. NA&M began operations in March 1992 as a provider of ADR (alternative dispute resolution) services. NA&M was merged into the Company as of the end of June 1999. In June 2000, shareholder approval was obtained to change the name of the Company from NAM Corporation to clickNsettle.com, Inc.

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 accounting scandals in recent years and the passing of the Sarbanes-Oxley Act of 2002 to safeguard shareholders, micro-cap companies such as the Company were faced with mounting legal and audit fees to meet the new compliance requirements needed to remain as a publicly traded entity. In addition to being expensive in terms of out-of-pocket expenditures, these requirements were costly in that they were time-consuming and placed a strain on the Company's limited personnel resources. While we remained optimistic about the need for the Company's services, we believed that the unavoidability of these escalating costs shortens the timeframe that the Company needed in order to realize revenues from its sales and marketing initiatives. Further, we believed our revenue had been adversely affected by the consolidation and turmoil in the insurance industry, which represented a major portion of our clientele. Additionally, insurance companies in general and some, in particular, had changed their claims-settling philosophies. We perceived that many of the larger insurance companies were taking a harder line with the plaintiff bar. This resulted in a slow down in the number of cases being submitted to ADR, a

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trend that continued into fiscal year 2005. This adversely affected the number of cases referred to our forum. In a broader sense, we believed that lawsuits continued 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 was 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 acquired the assets of the Company's dispute resolution business (the "ADR business"). In consideration, the Buyer assumed all current and future liabilities and commitments of 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. If such provision was triggered upon the sale or liquidation of the ADR business, the Company would have owed Mr. Israel, in one lump sum, approximately \$1,015,000, which represented three times his then current base salary. Additionally, the Asset Purchase Agreement provided that a minimum of \$200,000 in cash was to remain with the Company before giving affect to transaction costs. A portion of this cash has been utilized by the Company to pay for

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the costs associated with the sale of the ADR business and the balance will be used for continued public reporting obligations and potentially to acquire a new operating business or enter into a merger transaction.

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

On January 13, 2005, at the annual meeting of shareholders, the Company's shareholders approved the transaction. Immediately thereafter, the Company completed the sale of the ADR business. In connection therewith, the Buyer assumed the current and future commitments of the Company. Specifically, the Company has been released from its lease agreements for office space in Great Neck and Brooklyn, New York and from its employment agreements with its President and Chief Financial Officer. Additionally, the Buyer has guaranteed the payments due on the remainder of the Company's automobile lease (which approximated \$18,700 in total as of June 30, 2005). The Buyer has assumed the remaining payments due on the lease of a postage meter (which approximated \$900 in total as of June 30, 2005) until such time as the lessor issues a release of liability to the Company. Also, as of June 30, 2005, the Company remained contingently liable for additional payables and other items of approximately \$288,400 assumed by the Buyer but not paid as of that date. See Note 9. Furthermore, in accordance with the Company's stock option plan, all outstanding unvested employee stock options vested as of the date of the sale of the ADR business. As the Company did not retain any employees subsequent to the sale, the former employees had three months from January 13, 2005 to exercise such options in accordance with the terms of the Company's stock option plan. A total of 3,485,400 unexercised employee stock options expired at the close of business on April 13, 2005.

The loss from discontinued operations, including the loss on disposal of

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the discontinued operations, for the years ended June 30, 2005 and 2004 include the following:

| | 2005 | 2004 |
|---|-------------|-------------|
| Loss from operations of discontinued business | (\$181,261) | (\$513,825) |
| Loss from disposal: | | |
| Loss on sale* | (419,768) | -- |
| Transaction costs of sale | (111,526) | -- |
| Loss from disposal | (531,294) | -- |
| Loss from discontinued operations | (\$712,555) | (\$513,825) |
| | ===== | ===== |

*The loss on the sale was calculated as follows:

| | |
|-----------------------------------|-------------|
| Book value of liabilities assumed | \$667,438 |
| Book value of assets sold | (1,087,206) |
| Loss on transaction | \$419,768 |
| | ===== |

The results from discontinued operations for the approximately six and one-half months through January 13, 2005 and for the year ended June 30, 2004 follows:

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| | From July 1, 2004 through January 13, 2005 | Year Ended June 30, 2004 |
|---|--|--------------------------------|
| Net Revenues | \$ 1,808,400 | \$ 3,759,372 |
| Operating costs and expenses | | |
| Costs of services | 395,754 | 860,325 |
| Sales and marketing expenses | 593,026 | 1,271,430 |
| General and administrative expenses | 1,037,600 | 2,058,503 |
| Loss on impairment of furniture and equipment | 15,885 | 85,721 |
| | 2,042,265 | 4,275,979 |
| Loss from operations | (233,865) | (516,607) |
| Other Income | | |
| Investment income | 45,701 | |
| Interest and dividends | 5,777 | 100 |
| Other income | 1,126 | 2,682 |
| | 52,604 | 2,782 |

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| | | |
|---|--------------|--------------|
| Loss from operations of discontinued business | \$ (181,261) | \$ (513,825) |
| | ===== | ===== |

Pursuant to the Asset Purchase Agreement, the cash that remained in the Company was increased to the extent of 60% of the excess of the Remaining Net Capital before Commitments (as defined) over \$380,462 as of the closing date. The Remaining Net Capital Before Commitments was calculated as the fair market value of the assets purchased less the following: (a) recorded liabilities assumed and (b) \$96,371 (that is, \$200,000 in cash to remain with the Company less payments of \$103,629 already made through January 13, 2005 for certain of the transaction costs). As of January 13, 2005, the Remaining Net Capital before Commitments was \$643,728 based upon the Company's financial statements as of that date without adjustment for any subsequent realization of assets, incurrence of any additional liabilities or resolution of contingencies by the Buyer. Therefore, \$263,266 represents the amount in excess of \$380,462; 60% of which, or \$157,960 is additional cash to remain in the Company. Therefore, as of January 13, 2005, the total cash to be retained by the Company was \$254,331 before unpaid transaction costs, taxes, other payables and accrued liabilities. Although the liabilities and assets other than cash were transferred to the Buyer as of January 13, 2005, the cash balances have yet to be transferred as of June 30, 2005. As a result, the accompanying balance sheet shows cash and cash equivalents of \$870,684. However, as of June 30, 2005, the Company has a balance due to the Buyer in the amount of \$620,798. This amount includes interest due from the Company to the Buyer on the unpaid balance. The interest rate charged is equal to the interest rate earned on invested balances. The interest charge for the year ended June 30, 2005 was \$4,129 all of which is accrued and unpaid at June 30, 2005. A portion of the total balance due to the Buyer, in the amount of \$430,595, was transferred to the Buyer in August 2005. The remaining balance is expected to be transferred before October 31, 2005.

The costs of the transaction, which have been paid by the Company, included legal, accounting, tax advice and the cost of the fairness opinion. During the year ended June 30, 2005, the Company incurred \$111,526 of such costs, which are included in the loss on sale of discontinued operations on the accompanying statement of operations. At June 30, 2005, all such amounts have been paid.

Since the consummation of the sale, the Company has no operating business. Currently, the Company is actively searching for a new operating business to acquire or to enter into a merger transaction. There can be no assurances that an operating entity will be acquired or that a merger transaction will be consummated.

Selection of a Business

The Company is now considering business opportunities either through merger or merger transactions that might create value for our stockholders. We have no day-to-day operations at the present time. The officers and directors of the Company devote limited time and attention to the affairs of the Company. The Company may have to wait some time before consummating a suitable transaction. The Company does not intend to restrict its consideration to any particular business or industry segment.

However, due to the Company's limited financial resources, the scope and number of suitable candidate business ventures available is limited. The decision to participate in a specific business opportunity will be made upon

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management's analysis of the quality of the other firm's management and personnel, the anticipated acceptability of its products or marketing concepts, the merits of its technology and numerous other factors. Since the Company may participate in a business opportunity with a newly organized business or with a business which is entering a new phase of growth, the Company may incur risk due to the failure of the target's management to have proven its abilities of effectiveness, or the failure to establish a market for the target's products or services or the failure to realize profits.

Acquisition of a Business

With respect to any mergers or acquisitions, negotiations with target company management will be expected to focus on the percentage of the Company that target company stockholders would acquire in exchange for their stockholdings in the target company. Depending upon, among other things, the target company's assets and liabilities, the Company's stockholders will in all likelihood hold a lesser percentage ownership interest in the Company following any merger or acquisition. The percentage ownership may be subject to significant reduction in the event that Company acquires a target company with substantial assets. Typically, in these transactions, which are commonly called reverse acquisitions, voting control of the merged company changes from the stockholders of the pre-existing public company to those of the previous privately owned company. Any merger or acquisition effected by the Company can be expected to have a significant dilutive effect on the percentage of shares held by the Company's stockholders immediately preceding the transaction.

Prior Business of the Company

Prior to the sale of its sole operating business on January 13, 2005, the Company provided ADR services including arbitrations, mediations, mock jury trials, specialized ADR video conferencing and electronic oversight applications. Since the sale of the ADR business, the Company has had no operations.

Employees

Since the sale of the ADR business, the Company has had no operations and has no employees. Our executive officers devote as much time to the affairs of the Company as they deem appropriate. The focus of the Company is to maintain its status as a publicly traded entity while searching for a new operating business to acquire or to enter into a merger transaction.

ITEM 2. DESCRIPTION OF PROPERTY

Subsequent to January 13, 2005, we do not maintain any leased facilities. We maintain a mailing address at 990 Stewart Avenue, First Floor, Garden City, New York 11530, which we believe is adequate to meet our needs at this time.

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Prior to January 13, 2005, we maintained three leased facilities, which were located in office buildings. The aggregate rental expense, net of sublease income of \$40,046, and \$73,542 respectively, for all of our offices was \$102,455 and \$189,941 during the years ended June 30, 2005 and 2004, respectively.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

A. Our Common Stock is quoted on the NASD's Over-the-Counter Bulletin Board under the trading symbol "CLIK." Prior to March 5, 2003, our Common Stock was quoted on The Nasdaq SmallCap Market ever since we commenced public trading on November 18, 1996. Before November 18, 1996, there was no public market for our securities. The following table sets forth the range of high and low closing sales prices (based on transaction data as reported by The Nasdaq SmallCap Market and the NASD's Over-the-Counter Bulletin Board) for each fiscal quarter during the periods indicated.

| | Common Stock | |
|------------------------------------|--------------|--------|
| | High | Low |
| | ----- | |
| Fiscal Year 2005 | | |
| First quarter (07/1/04-9/30/04) | \$0.13 | \$0.09 |
| Second quarter (10/01/04-12/31/04) | 0.11 | 0.07 |
| Third quarter (01/01/05-03/31/05) | 0.10 | 0.06 |
| Fourth quarter (04/01/05-06/30/05) | 0.18 | 0.05 |
| Fiscal Year 2004 | | |
| First quarter (07/1/03-9/30/03) | \$0.23 | \$0.05 |
| Second quarter (10/01/03-12/31/03) | 0.38 | 0.25 |
| Third quarter (01/01/04-03/31/04) | 0.35 | 0.16 |
| Fourth quarter (04/01/04-06/30/04) | 0.20 | 0.06 |

On December 22, 2003, we effectuated a 6-for-1 forward stock split of our common stock. All common stock prices above have been restated to reflect the forward stock split. On September 22, 2005, the closing bid price for our common stock, as reported by the Over-the-Counter Bulletin Board, was \$0.139.

As of August 30, 2005, there were approximately 513 holders of our common stock.

We have not paid any dividends upon our common stock. The payment of common stock dividends, if any, in the future rests within the discretion of our board of directors and will depend, among other things, upon our capital requirements and financial condition, as well as other relevant factors.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Through January 13, 2005, we provided alternative dispute resolution services, or ADR services, to insurance companies, law firms, corporations and municipalities. We focused 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.

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Year Ended June 30, 2005 Compared to Year Ended June 30, 2004

Results of Operations

The Company sold its sole operating business, ADR services, on January 13, 2005. Since that time, the Company has not had an operating business. The financial statements for the year ended June 30, 2004 have been reclassified to show the revenues, income and expenses relating to the ADR business as discontinued operations. The income and expenses relating to the Company's operations of a public shell are shown as continuing operations for the fiscal year ended June 30, 2004. The financial statements for the year ended June 30, 2005 have been presented to show all revenues, income and expenses comprising the results of operations through January 13, 2005 as discontinued operations. All income and expenses from January 14, 2005 through June 30, 2005 are shown as continuing operations as they represent the results of operating the Company as a public shell. Currently, the Company is actively searching for a new operating business to acquire or to enter into a merger transaction. There can be no assurances that an operating entity will be acquired or that a merger transaction will be consummated.

Loss from continuing operations. The loss from continuing operations was \$99,786 for the year ended June 30, 2005 versus \$208,879 for the year ended June 30, 2004. The Company sold its sole operating business on January 13, 2005. Loss from continuing operations primarily reflects expenses incurred by the Company to maintain its existence as a publicly traded entity including its public reporting obligations. Such expenses include insurance, audit fees and legal costs. The loss decreased from fiscal year 2004 to fiscal year 2005 as the current year period includes such income and expense items for approximately 5.5 months from January 14, 2005 through June 30, 2005 while the prior year period includes such income and expense items for the full year. In addition, legal and auditing expenses applicable to the external reporting of a public company with an operating business are greater than those associated with that applicable to a public shell company. Continuing operations in fiscal year 2005 include accounting services that were contributed by the Buyer pursuant to the Asset Purchase Agreement. The value of such services, which were performed from January 14, 2005 through June 30, 2005, was \$12,750. Such value has been recorded as an imputed charge on the statement of operations with an equivalent offset to additional paid-in capital. Subsequent to June 30, 2005, additional accounting services were provided by the Buyer to prepare the June 30, 2005 financial statements and related year-end SEC filings. Such amount approximates \$17,500.

Loss from discontinued operations. Loss from discontinued operations increased from \$513,825 for the year ended June 30, 2004 to \$712,555 for the year ended June 30, 2005. The loss for the year ended June 30, 2005 includes the loss on the sale of the ADR business as well as the transaction costs incurred to affect the sale, while the loss for the year ended June 30, 2004 does not. The loss on the sale was \$419,768 and the transaction costs incurred were \$111,526, totaling \$531,294. The loss from operations of the discontinued business for the year ended June 30, 2005 was \$181,261 as compared to \$513,825 for the year ended June 30, 2004. The decline in the loss was due to the fact that the year ended June 30, 2005 includes net revenues and net expenses of \$1,808,400 and \$2,042,265, respectively, for approximately 6.5 months through January 13, 2005, the date of the sale, while the year ended June 30, 2004 includes net revenues and net expenses of \$3,759,372 and \$4,275,979, respectively, for the full twelve-month period. Additionally, during the first half of the 2005 fiscal year, the Company had been exploring strategic alternatives to preserve shareholder value. In furthering that goal, the Company had instituted cost cutting measures with respect to salaries and related costs (including a 15% salary reduction for employees earning more than \$100,000 per annum), travel and entertainment, advertising, auto expenses and legal fees.

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Furthermore, during the year ended June 30, 2005, the Company recorded no depreciation expense as the Company had recorded a loss from impairment on its furniture and fixtures at the end of the prior fiscal year. The loss on impairment amounted to \$85,721 and was equal to the net book value of furniture and fixtures as of June 30, 2004.

Income Taxes. Tax benefits resulting from net losses incurred for the years ended June 30, 2005 and 2004 were not recognized as we recorded a full valuation allowance against the net operating loss carryforwards during the periods. As of June 30, 2005, we had net operating carryforwards for Federal tax purposes of approximately \$8,296,300 and net capital loss carryforwards for Federal tax purposes of approximately \$815,600, both with full valuation allowances.

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Net Loss. For the year ended June 30, 2005, we had a net loss of \$812,341 as compared to a net loss of \$722,704 for the year ended June 30, 2004. The loss increased primarily due to the loss incurred on the sale of the ADR business, offset by lower losses from the discontinued operations as such operations ceased on January 13, 2005 and as cost cutting measures had been instituted in the current period while the Company was exploring strategic alternatives.

Liquidity and Capital Resources

At June 30, 2005, the Company had a working capital surplus of \$176,729 as compared to \$913,854 at June 30, 2004. The decrease in working capital occurred primarily as a result of the net loss, which includes the net loss on the sale of the ADR business on January 13, 2005. Thereafter, the Company has had no operating business.

Net cash used in operating activities was \$455,817 for the fiscal year ended June 30, 2005 versus \$749,416 in the prior fiscal year. Cash used in operating activities (including discontinued operations) principally decreased due to a higher net loss offset by decreases in assets and liabilities of discontinued operations and changes in operating assets and liabilities.

Net cash provided by investing activities was \$531,470 for the year ended June 30, 2005 versus net cash used in investing activities of \$318,501 for the year ended June 30, 2004. The change in cash from investing activities was principally due to the fact that during fiscal year 2005, the Company sold its marketable securities and its certificates of deposit matured, the proceeds of which were invested primarily in money market funds.

Net cash provided by financing activities during the year ended June 30, 2005 was \$64,162 versus \$0 during the year ended June 30, 2004. The increase was due to the fact that the President/CEO, Chief Financial Officer and Director of Information Technology exercised stock options in January and April 2005.

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 acquired the assets of the Company's dispute resolution business (the "ADR business"). In consideration, the Buyer assumed all current and future liabilities and commitments of 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. If such provision was triggered upon the sale or liquidation of the ADR business, the Company would have owed Mr. Israel, in one lump sum, approximately \$1,015,000, which

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represented three times his then current base salary. Additionally, the Asset Purchase Agreement provided that a minimum of \$200,000 in cash was to remain with the Company before giving affect to transaction costs. A portion of this cash has been utilized by the Company to pay for the costs associated with the sale of the ADR business and the balance will be used for continued public reporting obligations and potentially to acquire a new operating business or enter into a merger transaction.

On January 13, 2005, at the annual meeting of shareholders, the Company's shareholders approved the transaction. Immediately thereafter, the Company completed the sale of the ADR business. In connection therewith, the Buyer assumed the current and future commitments of the Company. Specifically, the Company has been released from its lease agreements for office space in Great Neck and Brooklyn, New York and from its employment agreements with its President and Chief Financial Officer. Additionally, the Buyer has guaranteed the payments due on the remainder of the Company's automobile lease (which approximated \$18,700 in total as of June 30, 2005). The Buyer has assumed the remaining payments due on the lease of a postage meter (which approximated \$900 in total as of June 30, 2005) until such time as the lessor issues a release of liability to the Company. Also, as of June 30, 2005, the Company

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remained contingently liable for additional payables and other items of approximately \$288,400 assumed by the Buyer but not paid as of that date. See Note 9. Furthermore, in accordance with the Company's stock option plan, all outstanding unvested employee stock options vested as of the date of the sale of the ADR business. As the Company did not retain any employees subsequent to the sale, the former employees had three months from January 13, 2005 to exercise such options in accordance with the terms of the Company's stock option plan. A total of 3,485,400 unexercised employee stock options expired at the close of business on April 13, 2005.

Pursuant to the Asset Purchase Agreement, the cash that remained in the Company was increased to the extent of 60% of the excess of the Remaining Net Capital before Commitments (as defined) over \$380,462 as of the closing date. The Remaining Net Capital Before Commitments was calculated as the fair market value of the assets purchased less the following: (a) recorded liabilities assumed and (b) \$96,371 (that is, \$200,000 in cash to remain with the Company less payments of \$103,629 already made through January 13, 2005 for certain of the transaction costs). As of January 13, 2005, the Remaining Net Capital before Commitments was \$643,728 based upon the Company's financial statements as of that date without adjustment for any subsequent realization of assets, incurrence of any additional liabilities or resolution of contingencies by the Buyer. Therefore, \$263,266 represents the amount in excess of \$380,462; 60% of which, or \$157,960 is additional cash to remain in the Company. Therefore, as of January 13, 2005, the total cash to be retained by the Company was \$254,331 before unpaid transaction costs, taxes, other payables and accrued liabilities. Although the liabilities and assets other than cash were transferred to the Buyer as of January 13, 2005, the cash balances have yet to be transferred as of June 30, 2005. As a result, the accompanying balance sheet shows cash and cash equivalents of \$870,684. However, as of June 30, 2005, the Company has a balance due to the Buyer in the amount of \$620,798. This amount includes interest due from the Company to the Buyer on the unpaid balance. The interest rate charged is equal to the interest rate earned on invested balances. The interest charge for the year ended June 30, 2005 was \$4,129 all of which is accrued and unpaid at June 30, 2005. A portion of the total balance due to the Buyer, in the amount of \$430,595, was transferred to the Buyer in August 2005. The remaining balance is expected to be transferred before October 31, 2005.

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The costs of the transaction, which have been paid by the Company, included legal, accounting, tax advice and the cost of the fairness opinion. During the year ended June 30, 2005, the Company incurred \$111,526 of such costs, which are included in the loss on sale of discontinued operations on the accompanying statement of operations. At June 30, 2005, all such amounts have been paid.

Since the consummation of the sale, the Company has no operating business. Currently, the Company is actively searching for a new operating business to acquire or to enter into a merger transaction. There can be no assurances that an operating entity will be acquired or that a merger transaction will be consummated.

As a result of continued losses, the use of significant cash in operations and the uncertainty as to the Company's ability to 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, 2005 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.

Critical Accounting Policies

The Securities and Exchange Commission released Financial Reporting Release No. 60, which requires all companies to include a discussion of critical accounting policies and methods used in the preparation of their financial statements. The significant accounting policies and methods used in the

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preparation of our consolidated financial statements are discussed in Note 3 of the Notes to Consolidated Financial Statements. We currently have one critical accounting policy since we no longer have any operations. Such policy follows:

Income taxes and valuation allowance - We are required to estimate our actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which would be included within our consolidated balance sheet. We then assess the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent we believe recovery is not likely, a valuation allowance is recognized. We have recorded a 100% valuation allowance as of June 30, 2005.

Effect of Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 123R, Share-based Payment ("SFAS No.123R"). SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS No. 123R, only certain pro forma disclosures of fair value were required. SFAS No. 123R is effective for public entities that file as small business issuers as of the beginning of the first annual reporting period that begins after December 15, 2005 and, thus, will be effective for us

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beginning with the first quarter of fiscal year 2007. The adoption of this statement is not expected to have a material impact on the financial statements of the Company.

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 153, Exchanges of Nonmonetary Assets ("SFAS No. 153"). This statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not believe the adoption of SFAS No. 153 will have a material impact on our financial statements.

RISK FACTORS

We face 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 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 do Not have an Operating Business and if the Company Acquires a New Business, the Shareholders may Suffer Significant Dilution

On January 13, 2005, the Company sold its ADR business. The Company is searching for an operating entity to acquire or to enter into a merger transaction. There can be no assurances that an operating entity will be acquired or that a merger transaction will be consummated. Also, the cash retained by the Company may not be sufficient to pay for the costs associated with continued public reporting obligations and to acquire a new operating business or to enter into a merger transaction. In addition, if the Company does acquire a new operating business or enters into a merger transaction, it

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is expected that such transaction will be accomplished by the issuance of stock of the Company, resulting in significant dilution.

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

We have incurred operating losses during the last nine years through June 30, 2005. Going forward, if we do not acquire another operating business, there will be no future revenues being generated. However, the Company will continue to incur costs for continued public reporting obligations. Also, it is likely that in order to acquire a new operating business or to enter into a merger transaction, costs will be incurred. Therefore, 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, 2005 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 Company's ability to 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.

Our Current Stockholders Have the Ability to Exert Significant Control

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Our executive officers, directors, and their affiliates beneficially own 5,148,646 shares or approximately 51.85% of the common stock outstanding based on 9,929,056 shares of common stock outstanding as of September 22, 2005. Of that number, Mr. Israel beneficially owns 3,525,788 shares or approximately 35.5% 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.

Our Common Stock is Traded on the NASD OTC Electronic Bulletin Board and is subject to the Penny Stock Rules

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

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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.

On February 2, 2005, the Company was informed by the Boston Stock Exchange ("BSE") that the Company's listing thereon would be suspended as of the close of trading that day. The suspension is due to the fact that the Company, after the sale of its sole operating business, was no longer in compliance with the BSE's requirements of \$1,000,000 in total assets and \$500,000 in shareholders' equity. The BSE agreed to provide a 90-day extension through May 2, 2005. As the Company was unable to regain compliance, the Company's stock was delisted from the BSE on May 2, 2005.

ITEM 7. FINANCIAL STATEMENTS

Information in response to this item is set forth in the Financial Statements, beginning on Page F-1 of this filing. On December 22, 2003, a 6-for-1 forward stock split of our outstanding common stock was effectuated. Our shareholders previously approved this action in a meeting held on December 12, 2003.

All references to number of shares and per share data in the financial statements and accompanying notes for all periods presented have been restated

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to reflect the forward stock split.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On June 28, 2005, Grant Thornton LLP ("Grant Thornton") resigned as the Company's independent registered public accounting firm as the Company no longer had an operating business.

During the Company's two most recent fiscal years and through June 28, 2005, there were no disagreements with Grant Thornton on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Grant Thornton, would have caused it to make reference to the subject matter of the disagreements in connection with this report. No reportable events of the type described in Item 304(a)(1)(iv)(B) of Regulation S-B occurred during the two most recent fiscal years.

Also effective June 28, 2005, BP Audit Group, PLLC was appointed by the Board of Directors as the new independent registered public accounting firm for the Company.

During its two most recent fiscal years and through June 28, 2005, the Company has not consulted with BP Audit Group, PLLC on any matter that (i) involved the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on the Company's financial statements, in each case where written or oral advice was provided, that was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue or (ii) was either the subject of a disagreement or event, as that term is described in Item 304(a)(1)(iv)(A) of Regulation S-B.

Form 8K and Form 8K-A were filed by the Company on June 30, 2005 and July 14, 2005, respectively, disclosing these changes in its auditors.

ITEM 8A. 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

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Officer ("CFO") and others in the Company involved in the preparation of this annual 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 annual 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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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
clickNsettle.com, Inc.

We have audited the accompanying consolidated balance sheet of clickNsettle.com, Inc. and Subsidiaries (the "Company") as of June 30, 2005, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive loss, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of clickNsettle.com, Inc. and Subsidiaries as of June 30, 2005 and the consolidated results of their operations and their consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 to the consolidated financial statements, the Company has suffered losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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/s/ BP AUDIT GROUP, PLLC

Farmingdale, New York
August 30, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
clickNsettle.com, Inc.

We have audited the accompanying consolidated statements of operations, changes in stockholders' equity and comprehensive loss, and cash flows of clickNsettle.com, Inc. and Subsidiaries (the "Company") for the year ended June 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of clickNsettle.com, Inc. and Subsidiaries for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Historically, the Company has sustained significant losses and used substantial amounts of cash in operations. The uncertainty as to the Company's ability to sustain profitable operations and other factors described in Note 2 raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 2 to the consolidated financial statements, the Company has reclassified the 2004 consolidated statements of operations and cash flows to reflect the discontinued operations.

/s/ GRANT THORNTON LLP

Melville, New York

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August 30, 2004, except for the reclassification of discontinued operations described in Note 2, as to which the date is October 3, 2005

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clickNsettle.com, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEET

June 30, 2005

ASSETS

CURRENT ASSETS

| | |
|---|------------|
| Cash and cash equivalents including \$620,798 to be used to pay related party buyer | \$ 870,684 |
| Prepaid insurance and other current assets | 26,588 |
| | ----- |
| Total current assets | \$ 897,272 |
| | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

| | |
|---|-----------|
| Accounts payable | \$ 11,655 |
| Due to related party buyer of discontinued operations | 620,798 |
| Accrued expenses and other liabilities | 88,090 |
| | ----- |
| Total current liabilities | 720,543 |
| | ----- |

COMMITMENTS AND CONTINGENCIES (See Notes)

STOCKHOLDERS' EQUITY

| | |
|--|-------------|
| Preferred stock - \$.001 par value; 5,000,000 shares authorized; 0 shares issued | |
| Common stock - \$.001 par value; 25,000,000 shares authorized; 10,181,554 shares issued | 10,182 |
| Additional paid-in capital | 10,179,757 |
| Accumulated deficit | (9,929,292) |
| Common stock in treasury at cost, 252,498 shares | (83,918) |
| | ----- |
| Total stockholders' equity | 176,729 |
| | ----- |
| | \$ 897,272 |
| | ===== |

The accompanying notes are an integral part of these statements.

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clickNsettle.com, Inc. and Subsidiaries

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CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended June 30,

| | 2005 | 2004* |
|---|--------------|-----------|
| | ----- | ----- |
| Net revenues | | |
| General and administrative expenses | \$ 101,483 | 263,0 |
| Interest and investment income | 1,697 | 54,1 |
| | ----- | ----- |
| Loss from continuing operations | (99,786) | (208,8 |
| Discontinued operations: | | |
| Loss from operations of discontinued business, including loss on disposal of \$531,294 in 2005 | (712,555) | \$ (513,8 |
| | ----- | ----- |
| NET LOSS | \$ (812,341) | \$ (722,7 |
| | ===== | ===== |
| Net loss per common share- basic and diluted | | |
| From continuing operations | \$ (0.01) | \$ (0. |
| From discontinued operations | (0.08) | (0. |
| | ----- | ----- |
| NET LOSS | \$ (0.09) | \$ (0. |
| | ===== | ===== |
| Weighted-average shares outstanding - basic and diluted | 8,914,919 | 8,449,0 |
| | ===== | ===== |

*Reclassified. See Note 2.

The accompanying notes are an integral part of these statements.

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clickNsettle.com, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE LOSS

Years ended June 30, 2005 and 2004

| Common stock | | Additional |
|--------------|--------|--------------------|
| Shares | Amount | paid-in capital |
| ----- | ----- | ----- |

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| | | | |
|--|------------|---------------|--------------|
| Balances at June 30, 2003 | 1,450,259 | \$ 1,450 | \$ 10,111,57 |
| Six-for-one forward stock split effectuated on December 22, 2003 | 7,251,295 | 7,252 | (7,25 |
| | ----- | ----- | ----- |
| | 8,701,554 | 8,702 | 10,104,32 |
| Net loss | | | |
| Change in unrealized gain on marketable securities | -- | -- | -- |
| | ----- | ----- | ----- |
| Comprehensive loss | | | |
| Balances at June 30, 2004 | 8,701,554 | 8,702 | 10,104,32 |
| Exercise of stock options | 1,480,000 | 1,480 | 62,68 |
| Imputed contribution to capital for accounting services provided by Buyer | | | 12,75 |
| Net loss | | | |
| Change in unrealized gain on marketable securities | -- | -- | -- |
| | ----- | ----- | ----- |
| Comprehensive loss | | | |
| Balances at June 30, 2005 | 10,181,554 | \$10,182 | \$ 10,179,75 |
| | ===== | ===== | ===== |
| | Common | Total | Comprehen |
| | stock in | stockholders' | loss |
| | treasury | equity | |
| | ----- | ----- | ----- |
| Balances at June 30, 2003 | \$(83,918) | \$1,678,822 | |
| Six-for-one forward stock split effectuated on December 22, 2003 | -- | -- | |
| | ----- | ----- | |
| | (83,918) | 1,678,822 | |
| Net loss | | (722,704) | \$(722,7 |
| Change in unrealized gain on marketable securities | -- | 7,462 | 7,4 |
| | ----- | ----- | ----- |
| Comprehensive loss | | | \$(715,2 |
| | | | ===== |
| Balances at June 30, 2004 | (83,918) | 963,580 | |
| Exercise of stock options | | 64,162 | |
| Imputed contribution to capital for accounting services provided by Buyer | | 12,750 | |
| Net loss | | (812,341) | \$(812,3 |
| Change in unrealized gain on marketable securities | -- | (51,422) | (51,4 |
| | ----- | ----- | ----- |
| Comprehensive loss | | | \$(863,7 |
| | | | ===== |
| Balances at June 30, 2005 | \$(83,918) | \$ 176,729 | |
| | ===== | ===== | |

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The accompanying notes are an integral part of this statement.

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clickNsettle.com, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30,

| | 2005 |
|--|--------------|
| | ----- |
| Cash flows from operating activities | |
| Net loss | \$ (812,341) |
| Adjustments to reconcile net loss to net cash used in operating activities | |
| Gains on sales of marketable securities | -- |
| Increase (decrease) in assets and liabilities of discontinued operations, net | 270,617 |
| Imputed contribution to capital for accounting services provided by Buyer | 12,750 |
| Changes in operating assets and liabilities | |
| Increase in prepaid expenses and other current assets | (26,588) |
| Increase in accounts payable, accrued liabilities and other liabilities | 99,745 |
| | ----- |
| Net cash used in operating activities | (455,817) |
| | ----- |
| Cash flows from investing activities | |
| Purchases of marketable securities | -- |
| Proceeds from sales of marketable securities and maturity of certificates of deposit | -- |
| Net cash provided by (used in) investing activities of discontinued operations | 531,470 |
| | ----- |
| Net cash provided by (used in) investing activities | 531,470 |
| | ----- |
| Cash flows from financing activities | |
| Proceeds from exercise of stock options | 64,162 |
| | ----- |
| Net cash provided by financing activities | 64,162 |
| | ----- |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 139,815 |
| Cash and cash equivalents at beginning of year | 730,869 |
| | ----- |
| Cash and cash equivalents at end of year | \$ 870,684 |
| | ===== |
| Non-cash investing and financing activities | |
| Loss on sale of discontinued operations (See Note 2 for supplemental | |

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non-cash activities related to this transaction)

\$ 419,768

*Reclassified. See Note 2.

The accompanying notes are an integral part of these statements.

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005 and 2004

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

clickNsettle.com, Inc. ("CLIK") provided a broad range of Alternative Dispute Resolution ("ADR") services, primarily arbitrations and mediations, principally in the United States. CLIK incorporated on January 12, 1994 and began operations on February 15, 1994. On October 31, 1994, National Arbitration & Mediation, Inc. ("NA&M"), which was primarily owned by CLIK's Chief Executive Officer, was acquired by and became a wholly-owned subsidiary of CLIK. The transaction was accounted for as a transfer of assets between companies under common control, with the assets and liabilities of NA&M combined with those of CLIK at their historical carrying values. NA&M also provided a broad range of ADR services, including arbitrations and mediations. NA&M began operations in March 1992.

The accompanying consolidated financial statements of clickNsettle.com, Inc. and Subsidiaries include the accounts of its wholly-owned subsidiaries, Michael Marketing LLC and clickNsettle.com LLC (collectively referred to herein as the "Company"). The Company had operated in one business segment, ADR. All significant intercompany transactions and balances were eliminated in consolidation.

There is substantial doubt about the Company's ability to continue as a going concern. See Note 2.

NOTE 2 - DISCONTINUED OPERATIONS AND GOING CONCERN

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 accounting scandals in recent years and the passing of the Sarbanes-Oxley Act of 2002 to safeguard shareholders, micro-cap companies such as the Company were faced with mounting legal and audit fees to meet the new compliance requirements needed to remain as a publicly traded entity. In addition to being expensive in terms of out-of-pocket expenditures, these requirements were costly in that they are time-consuming and place a strain on the Company's limited personnel resources.

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 acquired the assets of the Company's dispute resolution business (the "ADR business"). In consideration, the Buyer assumed all current and future liabilities and commitments of the ADR

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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. If such provision was triggered upon the sale or liquidation of the ADR business, the Company would have owed Mr. Israel, in one lump sum, approximately \$1,015,000, which represented three times his then current base salary. Additionally, the Asset Purchase Agreement provided that a minimum of \$200,000 in cash was to

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 2 (continued)

remain with the Company before giving affect to transaction costs. A portion of this cash has been utilized by the Company to pay for the costs associated with the sale of the ADR business and the balance will be used for continued public reporting obligations and potentially to acquire a new operating business or enter into a merger transaction.

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 was fair, from a financial point of view, to the Company's unaffiliated stockholders.

On January 13, 2005, at the annual meeting of shareholders, the Company's shareholders approved the transaction. Immediately thereafter, the Company completed the sale of the ADR business. In connection therewith, the Buyer assumed the current and future commitments of the Company. Specifically, the Company has been released from its lease agreements for office space in Great Neck and Brooklyn, New York and from its employment agreements with its President and Chief Financial Officer. Additionally, the Buyer has guaranteed the payments due on the remainder of the Company's automobile lease (which approximated \$18,700 in total as of June 30, 2005). The Buyer has assumed the remaining payments due on the lease of a postage meter (which approximated \$900 in total as of June 30, 2005) until such time as the lessor issues a release of liability to the Company. Also, as of June 30, 2005, the Company remained contingently liable for additional payables and other items of approximately \$288,400 assumed by the Buyer but not paid as of that date. See Note 9. Furthermore, in accordance with the Company's stock option plan, all outstanding unvested employee stock options vested as of the date of the sale of the ADR business. As the Company did not retain any employees subsequent to the sale, the former employees had three months from January 13, 2005 to exercise such options in accordance with the terms of the Company's stock option plan. A total of 3,485,400 unexercised employee stock options expired at the close of business on April 13, 2005.

The financial statements for the year ended June 30, 2004 have been reclassified to show the revenues, income and expenses relating to the ADR business as discontinued operations. The income and expenses relating to the Company's operations of a public shell are shown as continuing operations for the fiscal year ended June 30, 2004. The financial statements for the year ended June 30, 2005 have been presented to show

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all revenues, income and expenses comprising the results of operations through January 13, 2005 as discontinued operations. All income and expenses from January 14, 2005 through June 30, 2005 are shown as continuing operations as they represent the results of operating the Company as a public shell.

The loss from discontinued operations, including the loss on disposal of the discontinued operations, for the years ended June 30, 2005 and 2004 include the following:

| | 2005 ----- | 2004 ----- |
|---|---------------|---------------|
| Loss from operations of discontinued business | (\$181,261) | (\$513,825) |
| Loss from disposal: | | |
| Loss on sale* | (\$419,768) | -- |
| Transaction costs of sale | (111,526) | -- |
| Loss from disposal | (\$531,294) | -- |
| Loss from discontinued operations | (\$712,555) | (\$513,825) |

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 2 (continued)

*The loss on the sale was calculated as follows:

| | | |
|-----------------------------------|-------------|--|
| Book value of liabilities assumed | \$ 667,438 | |
| Book value of assets sold | (1,087,206) | |
| | ----- | |
| Loss on transaction | \$ 419,768 | |
| | ===== | |

The results from discontinued operations for the approximately six and one-half months through January 13, 2005 and for the year ended June 30, 2004 follows:

| | From July 1, 2004 through January 13, 2005 ----- | Year Ended June 30, ----- |
|------------------------------|---|------------------------------------|
| Net revenues | \$ 1,808,400 | \$ 3,759, |
| Operating costs and expenses | | |
| Costs of services | 395,754 | 860, |

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| | | |
|--|--------------|----------|
| Sales and marketing expenses | 593,026 | 1,271, |
| General and administrative expenses | 1,037,600 | 2,058, |
| Loss on impairment of furniture and equipment | 15,885 | 85, |
| | ----- | ----- |
| | 2,042,265 | 4,275, |
| | ----- | ----- |
| Loss from operations | (233,865) | (516, |
| | ----- | ----- |
| Other Income | | |
| Realized gains on sales of marketable securities | 45,701 | |
| Interest and dividends | 5,777 | |
| Other income | 1,126 | 2, |
| | ----- | ----- |
| | 52,604 | 2, |
| | ----- | ----- |
| Loss from operations of discontinued business | \$ (181,261) | \$ (513, |
| | ===== | ===== |

Pursuant to the Asset Purchase Agreement, as of January 13, 2005, the total cash retained by the Company was \$254,331 before unpaid transaction costs, taxes, other payables and accrued liabilities. This amount was determined based upon the Company's financial statements as of that date without adjustment for any subsequent realization of assets, incurrence of any additional liabilities or resolution of contingencies by the Buyer. Although the liabilities and assets other than cash were transferred to the Buyer as of January 13, 2005, the cash balances have yet to be transferred as of June 30, 2005. As a result, the accompanying balance sheet shows cash and cash equivalents of \$870,684. However, as of June 30, 2005, the Company has a balance due to the Buyer in the amount of \$620,798. This amount includes interest due from the Company to the Buyer on the unpaid balance. The interest rate charged is equal to the interest rate earned on invested balances. The interest charge for the year ended June 30, 2005 was \$4,129 all of which is accrued and unpaid at June 30, 2005. A portion of the total balance due to the Buyer, in the amount of \$430,595, was transferred to the Buyer in August 2005.

The costs of the transaction, which have been paid by the Company, included legal, accounting, tax advice and the cost of the fairness opinion. During the year ended June 30, 2005, the Company incurred

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 2 (continued)

\$111,526 of such costs, which are included in the loss on sale of discontinued operations on the accompanying statement of operations. At June 30, 2005, all such amounts have been paid.

Since the consummation of the sale, the Company has no operating business. Currently, the Company is actively searching for a new operating business to acquire or to enter into a merger transaction.

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There can be no assurances that an operating entity will be acquired or that a merger transaction will be consummated. As a result of continued losses, the use of significant cash in operations, limited cash and other resources and the uncertainty as to the Company's ability to 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. No adjustments have been made with respect to the consolidated financial statements to record the results of the ultimate outcome of this uncertainty.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting and reporting policies applied on a consistent basis which conform with accounting principles generally accepted in the United States of America follows:

a. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Actual results may differ from those estimates.

b. Revenue Recognition

Since January 13, 2005, the Company has had no operating business and did not generate revenues. Prior to January 13, 2005, the Company operated an ADR business. With respect thereto, the Company principally derived its revenues from fees charged for arbitrations and mediations. Each party to a proceeding was charged an administrative fee, which generally included the first hour of hearing/conference time. Additional fees were billed based on the total time spent by the hearing officer. Hearing officer time included, but was not limited to, case review time, decision preparation time, telephone or verbal conference time, as well as actual hearing/conference time expended. The Company generally recognized revenue when the arbitration or mediation occurred and was completed. Fees received prior to such arbitration or mediation had been reflected as deferred revenue.

In the event an arbitration or mediation was postponed, the postponing party was billed an adjournment fee. The Company recognized adjournment fee revenue when the adjournment occurred.

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 3 (continued)

In the event an arbitration or mediation was settled prior to the hearing/conference date, each party was billed a settlement fee which was recognized when the Company was informed of the

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settlement.

In the event an arbitration or mediation was cancelled prior to the hearing/conference date, the canceling party was billed a cancellation fee which was recognized when the Company was informed of the cancellation.

c. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and money market funds. The Company considers all unrestricted highly liquid investments purchased with a maturity of less than three months to be cash equivalents.

d. Certificates of Deposit

Certificates of deposit are recorded at cost.

e. Marketable Securities

Investments classified as marketable securities include equity securities that are reported at their fair values. Unrealized gains or losses on these securities are reported as a separate component of accumulated other comprehensive income (loss), net of related tax effects, within stockholders' equity. The Company categorizes all equity securities as available-for-sale.

Investment income consists of interest, dividends and gains and losses on marketable securities. Interest and dividends are recognized when earned. Realized gains and losses on sales, maturities or liquidation of investments in marketable securities are determined on a specific identification basis. Fair values of investments are based on quoted market prices.

f. Income Taxes

The Company follows the asset and liability method of accounting for income taxes by applying statutory tax rates in effect at the balance sheet date to differences among the book and tax bases of assets and liabilities. The resulting deferred tax liabilities or assets are adjusted to reflect changes in tax laws or rates by means of charges or credits to income tax expense. A valuation allowance is recognized to the extent a portion or all of a deferred tax asset may not be realizable.

g. Advertising Costs

The cost of advertising is expensed when the advertising takes place. The Company incurred \$79,013 and \$169,184 for advertising and external public relations costs in fiscal 2005 and 2004, respectively. Such amounts are charged to operations.

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

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NOTE 3 (continued)

h. Earnings (Loss) Per Common Share

Basic earnings (loss) per share are based on the weighted-average number of common shares outstanding without consideration of potential common stock. Diluted earnings (loss) 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 loss per share is the same as basic loss per share, as potential common shares of 921,490 and 6,255,288, at June 30, 2005 and 2004, respectively, would be antidilutive as the Company incurred net losses for the years ended June 30, 2005 and 2004.

i. Accounting for Stock Options

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" ("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 elected to adopt, effective December 31, 2002, only the disclosure provisions of SFAS No. 148 and to continue 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 (see Note 7(f)). Accordingly, compensation expense 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.

If the Company had elected to recognize compensation expense based upon the fair value at the grant date for options granted to employees and to members of the board of directors consistent with the "fair value" methodology prescribed by SFAS No. 123, the Company's net loss per share for the years ended June 30, 2005 and 2004 would be increased to the pro forma amounts indicated in the table which follows. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. As of January 13, 2005, upon the sale of the Company's operating business, in accordance with the Company's Incentive and Nonqualified Stock Option Plan (the "Plan"), all outstanding unvested employee stock options vested as of that date. As a result, in the following table, the pro forma compensation expense for the year ended June 30, 2005 reflects the effect of the accelerated vesting. As the Company did not retain any employees subsequent to the sale, the former employees had three months from January 13, 2005 to exercise

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 3 (continued)

such options in accordance with the terms of the Company's stock option plan. A total of 3,485,400 unexercised employee stock options expired at the close of business on April 13, 2005.

| | 2005 | 2004 |
|---|--------------|----------------|
| | ----- | ----- |
| Net loss | | |
| As reported | \$ (812,341) | \$ (7,100,000) |
| Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects | (63,448) | (1,000,000) |
| | ----- | ----- |
| Pro forma net loss | \$ (875,789) | \$ (8,100,000) |
| | ===== | ===== |
| Net loss per common share | | |
| Basic and diluted - as reported | \$ (.09) | \$ (.09) |
| Basic and diluted - pro forma | \$ (.10) | \$ (.10) |

No options were granted to consultants for the years ended June 30, 2005 and 2004.

j. Effect of Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 123R, Share-based Payment ("SFAS No.123R"). SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS No. 123R, only certain pro forma disclosures of fair value were required. SFAS No. 123R is effective for public entities that file as small business issuers as of the beginning of the annual reporting period that begins after December 15, 2005 and, thus, will be effective for us beginning with the first quarter of fiscal year 2007. The adoption of this statement is not expected to have a material impact on the financial statements of the Company. See Accounting for Stock Options above for information related to the pro forma effects on our reported net loss and net loss per share when applying the fair value recognition provisions of the previous

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SFAS No. 123 to stock-based employee compensation.

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 153, Exchanges of Nonmonetary Assets ("SFAS No. 153"). This statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not believe the adoption of SFAS No. 153 will have a material impact on our financial statements.

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 4 - COMPREHENSIVE INCOME (LOSS)

The components of comprehensive loss, net of tax effects, are as follows:

| | 2005 | 2004 |
|---|-------------|-------------|
| | ----- | ----- |
| Net loss | \$(812,341) | \$(722,704) |
| | ----- | ----- |
| Unrealized gain on marketable securities, net of tax effects of \$0 in 2005 and 2004, respectively | | |
| Unrealized gains arising in period | | 51,362 |
| Reclassification adjustment - loss included in net loss | (51,422) | (43,900) |
| | ----- | ----- |
| Net unrealized gain | (51,422) | 7,462 |
| | ----- | ----- |
| Comprehensive loss | \$(863,763) | \$(715,242) |
| | ===== | ===== |

Accumulated other comprehensive income represents the unrealized gain on marketable equity securities, net of tax effects of \$0 in fiscal 2004.

NOTE 5 - MARKETABLE SECURITIES

Proceeds on sales of marketable securities were \$231,461 and \$1,180,757 for the years ended June 30, 2005 and 2004, respectively. During fiscal 2005 and 2004, gross gains of \$45,701 and \$87,767, respectively, and gross losses of \$0 and \$44,626, respectively, were realized on these sales. Net unrealized gains on marketable securities were \$51,422 at June 30, 2004. During fiscal 2004, no income taxes were provided on the unrealized gains due to the Company's net operating loss.

Activities related to marketable securities in the accompanying statements

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of operations are reported in continuing operations for the year ended June 30, 2004 and in discontinued operations for the year ended June 30, 2005. There were no such activities subsequent to January 13, 2005.

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 6 - INCOME TAXES

Temporary differences which give rise to deferred taxes are summarized as follows:

| | 2005 | 2004 |
|--|-----------------|-----------------|
| Deferred tax assets | | |
| Net operating, capital and other loss carryforwards | \$ 3,385,300 | \$ 3,029,000 |
| Provision for bad debts and impairment of furniture and equipment | | 108,000 |
| Depreciation | | 40,000 |
| Deferred compensation | | 300 |
| Other | 43,000 | 52,000 |
| | 3,428,300 | 3,229,300 |
| Net deferred tax asset before valuation allowance | 3,428,300 | 3,229,300 |
| Valuation allowance | (3,428,300) | (3,229,300) |
| | \$ -- | \$ -- |

The Company has recorded a full valuation allowance to reflect the estimated amount of deferred tax assets which may not be realized.

The Company's effective income tax rate differs from the statutory Federal income tax rate as a result of the following:

| | 2005 | 2004 |
|---|-----------------|-----------------|
| Benefit at statutory rate | \$(201,815) | \$(245,719) |
| State and local benefit, net of Federal tax | (46,973) | (39,729) |
| Nondeductible expenses and other - net | 49,788 | 24,176 |
| Increase in the valuation allowance | 199,000 | 261,272 |
| | \$ -- | \$ -- |

At June 30, 2005, the Company had a net operating loss carryforward for

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Federal income tax reporting purposes amounting to approximately \$8,296,300, expiring from 2012 through 2025. Additionally, the Company has a net capital loss carryforward for Federal income tax reporting purposes at June 30, 2005 of approximately \$815,600 which expires from 2006 through 2009. No income taxes were paid in the years ended June 30, 2005 and 2004.

Under current tax law, the utilization of net operating losses will be restricted if significant changes in the Company's ownership were to occur. In addition, their use is limited to future earnings of the Company.

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 7 - STOCKHOLDERS' EQUITY

a. Capitalization

On December 22, 2003, the Company effected a 6-for-1 forward stock split. All references to number of shares and per share data in the consolidated financial statements and accompanying notes have been restated. The par value of the common stock remained unchanged at \$.001 per share.

b. Preferred Stock

The Company's board of directors has authorized 5,000,000 shares of \$.001 par value preferred stock.

c. Series A Exchangeable Preferred Stock

On February 15, 2000, the Company issued 1,850 shares of its Series A Exchangeable Preferred Stock for an aggregate purchase price of \$1,850,000. On April 5, 2001, pursuant to approval by the board of directors, the Company redeemed all of its Series A Exchangeable Preferred Stock at par value. There were 1,800 shares outstanding before the redemption and the Company paid \$1,800,000 to redeem these shares.

In connection with the sale of the Series A Exchangeable Preferred Stock, the Company issued warrants to the preferred holders to purchase an aggregate of 112,500 shares of common stock at a price per share of \$5.26. The warrants expired on August 15, 2005.

d. Private Placements

On May 10, 2000, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with ISO Investment Holdings, Inc. ("ISO"), whereby the Company issued 1,285,140 common shares, par value \$.001 per share, to ISO at a price of \$3.1125 per share or \$4,000,000. In connection therewith, the Company issued a warrant to ISO to purchase 360,000 common shares at an exercise price of \$4.045 per share, exercisable on or after May 10, 2000 and expiring on August 15, 2005. The exercise price and number of warrant shares were subject to adjustment in certain circumstances (stock split,

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dilutive issuances at less than market price, etc.).

Pursuant to the Stock Purchase Agreement, ISO has the right to designate one individual to be nominated as a member of the Company's board of directors. Additionally, under certain circumstances, ISO is entitled to purchase, upon the same terms, such number of securities to enable it to retain its fully diluted ownership position in the Company that it held immediately prior to a proposed issuance, sale or exchange of the Company's equity securities.

Pursuant to the Stock Purchase Agreement, ISO has one demand registration right commencing May 10, 2002 and unlimited incidental registration rights commencing immediately. In the case of a demand for registration by ISO, the Company shall not be required to file any such registration

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 7 (continued)

statement unless the anticipated aggregate gross offering price is at least \$2,000,000. The registration rights granted under the Stock Purchase Agreement terminated on May 10, 2004.

e. Treasury Stock

On March 12, 2004, the Company extended its March 1998 purchase plan (the "Purchase Plan"), pursuant to which the number of shares of common stock of the Company eligible for purchase under the Purchase Plan remained at an aggregate of 1,600,002 shares. The Purchase Plan expired on March 12, 2005. There were no purchases during the years ended June 30, 2005 and 2004. As of June 30, 2005, the Company had purchased an aggregate of 252,498 shares under the Purchase Plan for a total cost of \$83,918.

f. Stock Option Plan

The Company has an Incentive and Nonqualified Stock Option Plan (the "Plan") for employees, officers, directors, consultants and advisors of the Company, pursuant to which the Company may grant options to purchase up to 6,000,000 shares of the Company's common stock. On December 12, 2003, the Plan was amended to increase the number of shares of common stock available for grant to 7,500,000 shares. The Plan is administered by the board of directors, which has the authority to designate the number of shares to be covered by each award and the vesting schedule of such award, among other terms. The option period during which an option may be exercised shall not exceed ten years from the date of grant and will be subject to such other terms and conditions of the Plan. Unless the board of directors provides otherwise, option awards terminate when a participant's employment or services end, except that a participant may exercise an option to the extent that it was exercisable on the date of termination for a period of time thereafter. The Plan will

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terminate automatically on April 1, 2006.

Through June 30, 2004, directors who were not officers of the Company received annually, on the last trading day of June, stock options for 5,000 shares at an exercise price equal to the fair market value of the stock on the date of grant. In December 2002, the Plan was amended to increase the number of options granted to each non-employee director from options to purchase 5,000 shares to options to purchase 15,000 shares. No such options were granted on June 30, 2005.

In accordance with the Plan, all unvested employee stock options vested as of the date of the sale of the ADR business on January 13, 2005. As the Company did not retain any employees subsequent to the sale, all employee options expired at the close of business on April 13, 2005 unless they were exercised prior thereto.

The Company's stock option awards granted to employees, directors and consultants as of and for the years ended June 30, 2005 and 2004 are summarized as follows:

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 7 (continued)

| | 2005 | 2004 |
|--|---------------------------------------|-----------|
| | Shares | Shares |
| | Weighted-Average exercise price | |
| Outstanding at beginning of year | 5,762,776 | 5,309,106 |
| Awards granted | -- | 745,000 |
| Awards exercised | (1,480,000) | -- |
| Awards canceled/forfeited | (3,833,802) | (291,330) |
| Outstanding at end of year | 448,974 | 5,762,776 |
| Options exercisable at year-end | 448,974 | 4,042,776 |
| Weighted-average fair value of options granted during the year | -- | |

The following information applies to options outstanding and exercisable at June 30, 2005:

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| Range of exercise prices | Outstanding | | | Exercisable | |
|--------------------------|--------------------|--|---------------------------------|--------------------|---------------------------------|
| | Number outstanding | Weighted-average remaining life in years | Weighted-average exercise price | Number exercisable | Weighted-average exercise price |
| \$0.05 - \$0.11 | 150,000 | 8.50 | \$0.08 | 150,000 | \$0.08 |
| \$0.15 - \$0.20 | 39,990 | 6.62 | \$0.18 | 39,990 | \$0.18 |
| \$0.68 - \$0.79 | 29,994 | 1.78 | \$0.70 | 29,994 | \$0.70 |
| \$0.84 - \$1.50 | 91,998 | 1.86 | \$1.03 | 91,998 | \$1.03 |
| \$2.46 - \$5.00 | 136,992 | 2.33 | \$3.66 | 136,992 | \$3.66 |
| | 448,974 | | | 448,974 | |

Stock option awards are granted at prices equal to or above the closing bid price on the date of grant. No options were granted during the year ended June 30, 2005. For the year ended June 30, 2004, 230,000 options were granted at 10% above the closing bid price of \$0.14 on the date of grant. During the year ended June 30, 2005, a total of 1,480,000 options were exercised by the Company's President, Chief Financial Officer and Director of Information Technology at exercise prices ranging from \$0.042 to \$0.046 per share. No options were exercised during the year ended June 30, 2004. As of June 30, 2005, 5,499,026 shares were available for granting of options under the Plan.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2004: a dividend yield of zero; a risk-free interest rate of 2.82%; an expected term of 2.90 years; an expected stock price volatility of 150.06%; and a forfeiture rate of 15%.

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 7 (continued)

g. Stock Warrants

In April 2000, the Company entered into an agreement with a financial public relations firm whereby the Company granted warrants to purchase 20,000 shares of the Company's common stock. The warrants vested the earlier of six months from date of grant or upon termination of the agreement and were issued at a 25% premium to the market price of the common stock as of the date of grant. Once vested, the warrants were immediately exercisable. The warrants expired April 11, 2005. In August 2000, the Company terminated the agreement and no additional warrants in excess of the 20,000

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warrants were granted.

h. Common Stock Reserved

At June 30, 2005, the Company has reserved for issuance 6,420,500 shares of its common stock issuable pursuant to the Company's stock option plan and the exercise of warrants issued to consultants and investors. The warrants, which comprise 472,500 of such total, expired on August 15, 2005 without being exercised.

NOTE 8 - TRANSACTIONS WITH RELATED PARTIES

On January 13, 2005, the Company sold its ADR business to National Arbitration & Mediation, Inc., a company affiliated with the Company's chief executive officer, Roy Israel. See Note 2.

Pursuant to the Asset Purchase Agreement, the Buyer agreed to contribute accounting services to the Company after the sale of the ADR business. The value of services performed from January 14, 2005 through June 30, 2005 was \$12,750 and a charge in that amount has been imputed to general and administrative expenses in the accompanying statement of operations with an equivalent offset to additional paid-in capital. Subsequent to June 30, 2005, additional accounting services were provided by the Buyer to prepare the June 30, 2005 financial statements and related year-end SEC filings. Such amount approximates \$17,500.

Certain members of the board of directors performed services as hearing officers for the benefit of the Company. The related expenditures for these services for the years ended June 30, 2005 and 2004 were \$25,176 and \$38,050, respectively. Such amounts are included in the loss from operations of the discontinued business.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

In connection with the sale of the ADR business, the Buyer assumed the current and future commitments of the Company. Specifically, the Company was released from its lease agreements for office space in Great Neck and Brooklyn, New York and from its employment agreements with its President and Chief Financial Officer. To the extent that the Company was not released from its commitments, the Buyer has guaranteed any and all payments arising therefrom. As of June 30,

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 9 (continued)

2005, the Company remained contingently liable for approximately \$308,000 of payables and liabilities assumed by the Buyer but not paid as of that date.

Rent expense amounted to \$112,716 and \$211,429 for the years ended June 30, 2005 and 2004, respectively, net of sublease income of \$40,046 and \$73,542 for the years ended June 30, 2005 and 2004, respectively. Such amounts are included in the loss from operations

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of the discontinued business.

NOTE 10 - EMPLOYEE RETIREMENT PLAN

The Company had a 401(k) savings and retirement plan, whereby eligible employees may contribute up to 98% of their salaries subject to the maximum allowed under the Internal Revenue Code. Commencing in March 2004, the Company contributed 25% of each employee's contribution up to a maximum contribution by the employee of 12%, not to exceed 3% of the employee's compensation. Such amounts, which are included in the loss from operations of the discontinued business, were \$12,739 and \$9,885 in fiscal years 2005 and 2004, respectively. This 401(k) savings and retirement plan was transferred to the Buyer as of January 13, 2005.

NOTE 11 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

At June 30, 2005, the Company's financial instruments included cash and cash equivalents, accounts payable, accrued expenses and amount due to related party buyer. The fair values of these cash and cash equivalents, accounts payable, accrued expenses and amount due to related party buyer approximated carrying values because of the short-term nature of these instruments.

NOTE 12 - CREDIT CONCENTRATIONS

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents.

The Company's cash and cash equivalents at North Fork Bank consist primarily of demand deposits and a money market fund. As of June 30, 2005, such amounts on deposit were within the Federally insured limits. Additionally, the Company maintains other money market accounts at Merrill Lynch, Pierce, Fenner & Smith Inc. and Ameritrade Inc. Such institutions insure these balances against their financial failure. Additionally, SIPC (The Securities Investor Protection Corporation) protects securities in the account up to \$500,000. As of June 30, 2005, the Company's cash and cash equivalents were within these insured limits.

Through January 13, 2005, the Company sold its services principally to insurance companies and law firms. In fiscal years 2005 and 2004, no customer exceeded 10% of net revenues. The Company monitored exposure to credit losses and maintained allowances for anticipated losses considered necessary under the circumstances.

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clickNsettle.com, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE 13 - BOSTON STOCK EXCHANGE LISTING

On February 2, 2005, the Company was informed by the Boston Stock Exchange ("BSE") that the Company's listing thereon would be suspended as of the close of trading that day. The suspension was due to the fact that the Company, after the sale of its sole operating business, was no longer in compliance with the BSE's requirements of \$1,000,000 in total assets and

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\$500,000 in shareholders' equity. The BSE agreed to provide a 90-day extension through May 2, 2005. As the Company was not able to regain compliance, the Company's stock was delisted from the BSE on May 2, 2005.

The Company's common stock continues to be quoted on the OTC Bulletin Board under the stock symbol CLIK.

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The following table sets forth the names, ages and positions of all directors and executive officers. A summary of the background and experience of each of these individuals is set forth after the table.

| Name | Age | Position |
|---------------------------|-----|---|
| ---- | --- | ----- |
| Roy Israel | 45 | Chief Executive Officer, President and Chairman of the Board of Directors |
| Kenneth G. Geraghty | 54 | Director |
| Randy Gerstenblatt | 46 | Director |
| Corey J. Gottlieb | 42 | Director |
| Willem F. Specht | 44 | Director |
| Patricia Giuliani-Rheaume | 47 | Vice President, Chief Financial Officer and Treasurer |

ROY ISRAEL has been our Chairman of the Board of Directors, Chief Executive Officer, and President since February 1994. Immediately prior to holding such positions, Mr. Israel was President, Director, and founder of National Arbitration & Mediation, Inc. ("NA&M"), a wholly-owned subsidiary of the Company until it merged with the Company in June 1999.

PATRICIA GIULIANI-RHEAUME has been our Vice President, Chief Financial Officer, and Treasurer since February 1997. Immediately prior to holding such positions, Ms. Giuliani-Rheaume was the Vice President and Corporate Controller of The Robert Plan Corporation, an insurance services company, since April 1991. Prior thereto, Ms. Giuliani-Rheaume was an audit senior manager with KPMG Peat Marwick LLP. Ms. Giuliani-Rheaume is a certified public accountant and a member of the AICPA and the New York State Society of CPAs.

WILLEM F. SPECHT was our Director of Information Technology since May 1998 and previously held the position of Systems Analyst with us since April 1995. Upon sale of the Company's sole operating business on January 13, 2005, Mr. Specht resigned his position as Director of Information Technology from the Company as the Company no longer retained any employees. Mr. Specht continues to serve as a member of the Board of Directors of the Company.

KENNETH G. GERAGHTY has been the Executive Vice President and Chief Financial Officer of Insurance Services Office, Inc. since February 2000. From March 1999 through January 2000, Mr. Geraghty was the Executive Vice President

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and Chief Administrative Officer of Dycom Industries, Inc., a company which provides engineering, construction and maintenance services to telecommunications providers. Prior to holding this position, Mr. Geraghty was the Senior Vice President, Strategic Finance of Massachusetts Mutual Life Insurance Company from December 1997 through March 1999. From October 1995 through May 1997, Mr. Geraghty was the Vice President, Change Management for American Express Company. Mr. Geraghty holds BS and MS degrees in Chemical Engineering and a MBA degree in Finance.

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RANDY GERSTENBLATT is currently the Senior Vice President of ESPN/ABC Sports Customer Marketing and Sales. Prior to holding this position, Mr. Gerstenblatt was Vice President of ESPN Customer Marketing and Sales from January 2000 through October 2000. From November 1997 through January 2000, Mr. Gerstenblatt was the Director of Integrated Sales and Marketing at ESPN. From 1991 through November 1997, he was the Director of Group Station Sales at ABC National Television Sales.

COREY J. GOTTLIEB is the President/CEO of Targeted Media Partners LTD, a sales, marketing and consulting company for established and start-up ventures in the commercial advertising sector. From January 1998 through August 2001, Mr. Gottlieb was the Senior Vice President & National Sales Manager for Transportation Displays Incorporated (TDI). Prior to holding this position, Mr. Gottlieb was Senior Vice President & National Sales Manager for Paramount Pictures Domestic Television Group for seven years and the first Senior Vice President of Sales for the UPN television network. Mr. Gottlieb holds a BS degree in Finance and a minor in Computer Science.

Audit Committee

Prior to January 13, 2005, the Company maintained a separate Audit Committee. Since January 13, 2005, when the Company sold its sole operating business, the entire Board is responsible for this function. As such, under the definition of "independence" as set forth in NASDAQ Marketplace Rule 4350, we do not have a fully independent audit committee. As our common stock is traded via the Over-the-Counter Bulletin Board and is not listed on or with a national securities exchange or national securities association, we are not required to have a fully independent audit committee. In addition, Kenneth G. Geraghty has been designated as our audit committee financial expert. Mr. Geraghty is an executive officer of a company that is an affiliate of a holder of 13% of our stock and, as such, Mr. Geraghty may be considered an affiliate of our company and thereby deemed not to be independent. Mr. Geraghty disclaims beneficial ownership of such stock and the Board of Directors concluded that they believe Mr. Geraghty to be independent.

Compliance with Section 16(a) of the Exchange Act

Based solely on our review of copies of Forms 3 and 4 received by us and representations from certain reporting persons, we believe that during the fiscal year ended June 30, 2005, there was compliance with Section 16 (a) filing requirements applicable to our officers and directors.

Code of Ethics

We have adopted a Code of Ethics for our Senior Financial Officers. Also, prior to January 14, 2005, a Code of Business Conduct and Ethics was in effect for our employees. We shall, without charge, provide to any person, upon request, a copy of our Code of Ethics for our Senior Financial Officers. All such requests should be mailed to: clickNsettle.com, Inc., 990 Stewart Avenue,

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First Floor, Garden City, NY 11530, attention: Patricia Giuliani-Rheaume, VP & CFO.

As required by SEC rules, we will report within five business days the nature of any change or waiver of our Code of Ethics for our Senior Financial Officers.

Nominating Committee

As we are not required by federal securities laws to have a separate Nominating Committee, the entire Board is responsible for this function.

Compensation Committee

We previously established a Compensation Committee, the members of which met the criteria for "independence" according to the standard set by NASDAQ for such committee members. However, since January 13, 2005 when the Company sold its sole operating business, there are no employees of the Company. Therefore, there is no longer a need for a Compensation Committee and it has been disbanded.

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ITEM 10. EXECUTIVE COMPENSATION AND OTHER INFORMATION

The following summarizes the aggregate compensation paid during fiscal year 2005 to our Chief Executive Officer and any officer who earned more than \$100,000 in salary and bonus (the "Named Persons"). Such compensation, which represents the aggregate compensation paid for fiscal year 2005, reflects amounts for the period from July 1, 2004 through January 13, 2005, the date of the sale of the Company's sole operating business. No executive compensation was paid by the Company for periods subsequent to January 13, 2005. The value of services contributed by Mr. Israel subsequent to January 13, 2005 and through June 30, 2005 has neither been quantified nor imputed as it was deemed to be immaterial. See Note 8 to the consolidated financial statements.

Summary Compensation Table

| Name and Principal Position | Year | Annual Compensation | | Other Annual Compensation | Long Term Compensation | All Other Compensation |
|--|------|------------------------|----------|------------------------------|---|---------------------------|
| | | Salary | Bonus | | ----- Securities Underlying Options (1) ----- | |
| Roy Israel, President, Chief Executive Officer and Chairman of the Board | 2005 | \$157,530 | -- | \$16,480 (2) | -- | \$14,110 (3) |
| | 2004 | \$321,631 | -- | \$22,907 (2) | 230,000 | \$14,110 (3) |
| | 2003 | \$302,288 | \$90,330 | \$22,196 (2) | 1,200,000 | \$14,110 (3) |

(1) Such option amounts have been restated to reflect the 1-for-3 reverse stock split of our common stock effectuated on August 20, 2001 and the 6-for-1 forward stock split of our common stock effectuated on December

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22, 2003.

- (2) Such amount represents tax gross ups for Mr. Israel for medical, life and disability payments.
- (3) Such amount represents premium payments on life insurance policies for the named executive officer.

Options Granted in Last Fiscal Year

There were no options granted to officers of the Company during the year ended June 30, 2005.

Aggregated Option Exercises in Last Fiscal Year and FY-End Option Values

| (a) Name | (b) Shares Acquired On Exercise (#) | (c) Value Realized (\$) | (d) Number of Securities Underlying Unexercised Options at FY-End (#) Exercisable/ Unexercisable | (e) Value of Unexercised In-the- Money Options at FY-End Exercisable/ Unexercisable |
|--|---|-------------------------------|--|--|
| Roy Israel, President, Chief Executive Officer and Chairman of the Board | 1,200,000 | 43,504(1) | 0/0 | 0/0 |

- (1) Mr. Israel exercised 600,000 options on January 12, 2005 at an exercise price of \$0.0417 when the market price was \$0.06. Mr. Israel also exercised 600,000 options on April 13, 2005 at an exercise price of \$0.0458 when the market price was \$0.10.

Employment Contracts and Termination of Employment and Change In Control Arrangements

Roy Israel. In March 2002, we entered into an employment agreement with Mr. Israel effective as of July 1, 2002. Such employment agreement was assumed by the Buyer as part of the purchase of the ADR business from the Company. 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. If such provision was triggered upon the sale or liquidation of the ADR business, the Company would have owed Mr. Israel, in one lump sum, approximately

\$1,015,000, which represented three times his then current base salary. Although Mr. Israel remains as CEO and Chairman of the Board, he is not receiving any compensation from the Company for these services from January 14, 2005 forward. Moreover, as of January 14, 2005, the Company has no liability for current or future payments to Mr. Israel with respect to this contract.

Prior to the sale of the ADR business, Mr. Israel's employment agreement provided for a current annual base salary of \$338,316. Previously,

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however, in an effort to reduce expenses, as of July 14, 2004, Mr. Israel voluntarily reduced his salary by 15% to \$287,569. Accordingly, for the period from July 1, 2004 through January 13, 2005, Mr. Israel's salary was \$157,530. Pursuant to the agreement, he was entitled to an annual base salary increase equal to the greater of 6% or an amount which reflects the increase in the Urban Consumer Price Index, and an annual bonus based on the achievement of specified criteria with respect to revenues, cash flow and/or pretax income (loss). For the fiscal year ended June 30, 2005, Mr. Israel did not receive a bonus. In addition, the agreement provided, among other things, that we shall pay up to an aggregate of \$15,000 per policy year for a key man life insurance policy in favor of us for \$1,000,000 and life insurance in favor of the estate of Mr. Israel, a disability policy for coverage of 60% of his base salary (before the voluntary reduction), and an allowance for leasing an automobile (up to a monthly lease payment of \$1,000.) If this agreement was terminated other than for cause or as a result of a change in duties, Mr. Israel was to be entitled to the greater of (i) his then current base salary (before the voluntary reduction) and severance bonus for the remainder of the employment term or (ii) three times his then current base salary (before the voluntary reduction) and severance bonus, to be paid over a one-year period. The severance bonus is 115% of the bonus paid for the full fiscal year immediately prior to termination. In addition, all unvested options shall immediately vest. If this agreement was terminated due to a change in control, Mr. Israel was to be entitled to the same severance package as previously described but to be paid in one lump sum. Mr. Israel's employment agreement with us was to expire June 30, 2007 and then automatically renew for one-year terms unless terminated at least 90 days prior to the end of an employment term by either party. If we were to give notice of non-renewal of the agreement or we did not enter into a new employment agreement with Mr. Israel, he was entitled to receive one year of his base salary (before the voluntary reduction) plus the severance bonus amount which was to be paid to Mr. Israel during the one-year period following the end of the employment term. The agreement also contained a one-year non-competition clause if the agreement was terminated or upon expiration. In the event of a breach of the agreement by us, the non-competition clause was to be null and void.

Patricia Giuliani-Rheaume. Ms. Giuliani-Rheaume's employment agreement was assumed by the Buyer as part of the purchase of the ADR business from the Company. Although Ms. Giuliani-Rheaume remains as CFO, she is not receiving any compensation from the Company for these services from January 14, 2005 forward. The value of her accounting and reporting services, \$10,500, for the period from January 14, 2005 through June 30, 2005, has been imputed as a charge to the statement of operations, with an equivalent offset to additional paid-in capital. Moreover, as of January 14, 2005, the Company has no liability for current or future payments to Ms. Giuliani-Rheaume with respect to this contract.

Prior to the sale of the ADR business, pursuant to this agreement, her annual base salary was \$155,000 and she was eligible for an annual bonus at the discretion of the Company's Chief Executive Officer, subject to the approval of the Compensation Committee of the Board of Directors. Previously, however, as of July 14, 2004, in an effort to reduce expenses, Ms. Giuliani-Rheaume voluntarily reduced her salary by 15% to \$131,750. Accordingly, her salary for the period from July 1, 2004 through January 13, 2005 approximated \$72,257. In addition, the agreement provided, among other things, that we were to pay for a life insurance policy of \$250,000, full family health insurance, and a \$400 a month allowance for leasing an automobile. The agreement also contained a one-year non-competition clause if the agreement was terminated for any reason or upon expiration. If the agreement was terminated without cause, Ms. Giuliani-Rheaume was to receive a payment of severance of an amount equal to six months of the base salary in effect at such time.

Willem Specht. Upon the sale of the ADR business, Mr. Specht resigned his position as Director of Information Technology from the Company as the Company

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no longer retained any employees and accepted a position with the Buyer. Mr. Specht continues to serve as a member of the Board of Directors of the Company.

Prior to the sale of the ADR business, pursuant to his employment agreement, Mr. Specht's salary and bonus were set at the discretion of the Chief Executive Officer, subject to the approval of the Compensation

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Committee of the Board of Directors. Mr. Specht's annual base salary had been \$131,250. Previously, however, as of July 14, 2004, in an effort to reduce expenses, Mr. Specht voluntarily reduced his salary by 15% to \$111,563. Accordingly, his salary for the period from July 1, 2004 through January 13, 2005 approximated \$61,183. Mr. Specht's employment was terminable at will.

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ITEM 11: Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of September 12, 2005, certain information with respect to the beneficial ownership of each class of our voting equity securities by each director and director nominee, beneficial owners of 5% or more of our common stock, the Named Persons and all our directors and executive officers as a group:(1)

| Name of Beneficial Owner(2) ----- | Amount and Nature of Beneficial Ownership(3) ----- | Percent of Total ----- |
|--|--|---------------------------|
| Roy Israel(4) President, Chief Executive Officer and Chairman of the Board | 3,525,788 | 35.5% |
| Willem F. Specht Director | 140,000 | 1.4% |
| Corey J. Gottlieb (5) Director | 54,998 | * |
| Randy Gerstenblatt (6) Director | 35,396 | * |
| Kenneth G. Geraghty (7) Director | 1,352,464 | 13.6% |
| Patricia A. Giuliani-Rheaume Vice President, Chief Financial Officer and Treasurer | 140,000 | 1.4% |
| ISO Investment Holdings, Inc. | 1,322,464 | 13.3% |
| M. D. Sabbah (8) | 585,000 | 5.9% |
| All Officers and Directors as a Group (6 persons) (4) (5) (6) (7) | 5,248,646 | 52.3% |

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*Less than one percent (1%).

- (1) Applicable percentage of ownership is based on 9,929,056 shares of our common stock, which were outstanding on September 12, 2005, plus, for each person or group, any securities that person or group has the right to acquire within sixty (60) days pursuant to options and warrants.
- (2) The address for each beneficial owner is c/o clickNsettle.com, Inc., 990 Stewart Avenue, First Floor, Garden City, New York 11530.
- (3) Beneficial ownership has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, and unless otherwise indicated, represents shares for which the beneficial owner has sole voting and investment power. The percentage of class is calculated in accordance with Rule 13d-3.
- (4) Includes 123,806 shares owned by Mr. Israel's wife, Carla Israel, the Secretary of our company. Mr. Israel disclaims beneficial ownership as to such securities.
- (5) Includes options to purchase 35,000 shares of our common stock, which are vested and exercisable.
- (6) Includes options to purchase 35,000 shares of our common stock, which are vested and exercisable.
- (7) Includes options to purchase 30,000 shares of our common stock, which are vested and exercisable. The common shares are owned by ISO Investment Holdings, Inc. Mr. Geraghty disclaims beneficial ownership of these securities.
- (8) This information was taken from an Amendment to Form 13D filed by M.D. Sabbah on June 2, 2000. We are not aware of any subsequent filings with the SEC after this date.

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ITEM 12: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Since our inception, there have not been any material transactions between us and any of our officers and directors, except as set forth herein. On January 13, 2005, the Company sold its ADR business to National Arbitration & Mediation, Inc., a company affiliated with the Company's CEO, Roy Israel. See Note 2 to the Financial Statements for additional details. Furthermore, pursuant to the Asset Purchase Agreement, the Buyer agreed to provide accounting services to the Company after the sale of the ADR business. The value of the services performed from January 14, 2005 through June 30, 2005 was \$12,750 and is included in general and administrative expenses in the accompanying statement of operations. Subsequent to June 30, 2005, additional accounting services were contributed by the Buyer to prepare the June 30, 2005 financial statements and related year-end SEC filings. Such amount approximates \$17,500. Additionally, certain former members of the board of directors performed services as hearing officers through their respective law firms for the benefit of the Company through January 13, 2005. The related expenditures for these services for the years ended June 30, 2005 and 2004 were \$25,176 and \$38,050, respectively. Carla Israel, who was our Sales Supervisor through January 13, 2005 and still remains the Secretary of the Company, is the wife of Roy Israel, our CEO. Her compensation from July 1, 2004 through January 13, 2005 was \$37,869. She also received a car allowance

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(including insurance) of \$4,282 from July 1, 2004 through January 13, 2005. Upon the sale of the ADR business, Ms. Israel no longer received any compensation from the Company.

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ITEM 13. 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(d) | Certificate of Amendment of Certificate of Incorporation (5) |
| 3.1(e) | Certificate of Amendment of Certificate of Incorporation, as amended (6) |
| 3.1(f) | Certificate of Amendment of Certificate of Incorporation, second amendment (7) |
| 3.2 | By-Laws of the Company, as amended (2) |
| 4.1 | Stock Purchase Agreement dated May 10, 2000 (4) |
| 4.2 | Stock Purchase Warrant dated May 10, 2000 (4) |
| 4.3 | Exchangeable Preferred Stock and Warrants Purchase Agreement (3) |
| 10.1 | 1996 Stock Option Plan, amended and restated (2) |
| 10.16 | Asset Purchase Agreement dated October 18, 2004 (8) |
| 23.1 | Consent of BP Audit Group, PLLC** |
| 23.2 | Consent of Grant Thornton LLC** |
| 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)** |

-
- (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 1998 Annual Report on Form 10-KSB.
 - (3) Incorporated herein in its entirety by reference to the Company's SB-2 filed on March 28, 2000.

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- (4) Incorporated herein in its entirety by reference to the Company's Form 8-K filed on May 17, 2000.
 - (5) Incorporated herein in its entirety by reference to the Company's Form 8-K filed on June 21, 2000.
 - (6) Incorporated herein in its entirety by reference to the Company's 2001 Annual Report on Form 10-KSB.
 - (7) Incorporated herein in its entirety by reference to the Company's 2004 Annual Report on Form 10-KSB.
 - (8) Incorporated herein in its entirety by reference to the Company's Form 8-K filed on October 20, 2004.
- ** Filed herewith.

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B. Reports on Form 8-K:

Form 8K and Form 8K-A were filed by the Company on June 30, 2005 and July 14, 2005, respectively, disclosing a change in the Company's auditors. See Item 8.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the fees billed or to be billed by our independent auditors, BP Audit Group, PLLC and Grant Thornton LLP, respectively, for the fiscal years ended June 30, 2005 and 2004:

| | FY 2005 | FY 2004 |
|--|----------|----------|
| | ----- | ----- |
| Audit fees and quarterly reviews | \$38,000 | \$73,860 |
| Financial information systems design and implementation fees | | |
| All other fees: | | |
| Tax return preparation | 10,000 | 19,640 |
| Audit related services | | |
| Non-audit related services | | |
| | ----- | ----- |
| Total Fees | \$48,000 | \$93,500 |
| | ----- | ----- |

The Board of Directors considered and determined that the services performed for "financial information systems design and implementation fees" and "all other fees" are compatible with maintaining the independence of the independent auditors.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

Prior to the sale of the ADR business on January 13, 2005, the Audit Committee was responsible for pre-approving all audit and permitted non-audit services to be performed for us by our independent auditor as outlined in its Audit Committee charter. Prior to engagement of the independent auditor for each year's audit, management or the independent auditor submits to the Audit Committee for approval an aggregate request of services expected to be rendered during the year, which the Audit Committee pre-approves. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those circumstances, the Audit Committee requires specific pre-approval

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before engaging the independent auditor. The Audit Committee does not delegate to management its responsibility to pre-approve services performed by the independent auditor. Subsequent to the sale of the Company's sole operating business on January 13, 2005, the entire Board of Directors has been responsible for the Audit Committee functions.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

clickNsettle.com, Inc.

Date: October 3, 2005

By: /s/ Roy Israel

Roy Israel, Chairman of the
Board, CEO and President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: October 3, 2005

By: /s/ Roy Israel

Roy Israel, Chairman of the
Board, CEO and President

Date: October 3, 2005

By: /s/ Patricia Giuliani-Rheaume

Patricia Giuliani-Rheaume, Vice
President, Chief Financial Officer
and Treasurer

Date: October 3, 2005

By: /s/ Kenneth G. Geraghty

Kenneth G. Geraghty, Director

Date: October 3, 2005

By: /s/ Randy Gerstenblatt

Randy Gerstenblatt, Director

Date: October 3, 2005

By: /s/ Corey J. Gottlieb

Corey J. Gottlieb, Director

Date: October 3, 2005

By: /s/ Willem F. Specht

Willem F. Specht, Director

