

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

CAREERENGINE NETWORK INC  
Form 10QSB  
August 14, 2002

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

FORM 10-QSB

(Mark One)

Quarterly report pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2002  
-----

Transition report under Section 13 or 15(d) of the Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
-----

Commission file number 1-9224

CAREERENGINE NETWORK, INC.  
-----

(Exact Name of Small Business Issuer as Specified in Its Charter)

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

13-2689850  
(I.R.S. Employer  
Identification No.)

200 West 57th Street, Suite 1103, New York, N.Y. 10019  
-----

(Address of Principal Executive Offices)

212-775-0400  
-----

(Issuer's Telephone Number, Including Area Code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

The number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

| Class<br>-----                          | Outstanding at July 31, 2002<br>----- |
|---|---------------------------------------|
| Common stock - par value \$.10<br>----- | 5,590,944 shares<br>-----             |

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

## Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

The following consolidated financial statements of CareerEngine Network, Inc. and subsidiaries (collectively referred to as the "Company," unless the context requires otherwise) are prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-QSB and reflect all adjustments (consisting of normal recurring accruals) and disclosures which, in the opinion of management, are necessary for a fair statement of results for the interim periods presented. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-KSB for the year ended December 31, 2001, which was filed with the Securities and Exchange Commission.

The results of operations for the three and six-months ended June 30, 2002 are not necessarily indicative of the results to be expected for the entire fiscal year.

1

### CareerEngine Network, Inc. and Subsidiaries Consolidated Balance Sheets

|  | June 30,<br>2002<br>(Unaudited)<br>----- |
|--|--|
| <b>ASSETS</b>  |  |
| Current:   |  |
| Cash and cash equivalents                                    | \$ 361,793                               |
| Accounts receivable, net                                     | 49,480                                   |
| Insurance claims receivable                                  | 29,390                                   |
| Other  | 31,541                                   |
|  | -----                                    |
| Total current assets   | 472,204                                  |
| Fixed assets, net  | 91,236                                   |
| Deferred financing costs, net                                | 342,325                                  |
| Other  |  |
|  | -----                                    |
| Total assets   | \$ 905,765<br>=====                      |
| <b>LIABILITIES</b>   |  |
| Current:   |  |
| Accounts payable and accrued expenses                        | \$ 499,096                               |
| Interest payable   | 72,000                                   |
| Tax assessment payable                                       | 882,393                                  |
| Excess of liabilities over assets of discontinued operations |  |
|  | -----                                    |
| Total current liabilities                                    | 1,453,489                                |
| Debentures payable, net of unamortized discount              |  |

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

|   |              |
|---|--------------|
| of \$676,864 in 2002 and \$691,748 in 2001  | 1,723,136    |
| Deferred grant revenue  | 116,740      |
|   | -----        |
| Total liabilities   | 3,293,365    |
|   | -----        |
| Commitments and contingencies   |              |
| CAPITAL (DEFICIT)   |              |
| Preferred stock - authorized 1,000,000 shares, par value \$0.10;<br>none issued   |              |
| Common stock - authorized 20,000,000 shares, par value \$0.10;<br>6,829,600 and 6,789,600 shares issued<br>in 2002 and 2001, respectively | 682,960      |
| Paid-in surplus   | 16,290,691   |
| Accumulated deficit   | (16,488,151) |
|   | -----        |
|   | 485,500      |
| Less treasury stock, at cost -<br>1,238,656 shares  | (2,873,100)  |
|   | -----        |
| Total deficit   | (2,387,600)  |
|   | -----        |
| Total liabilities and deficit   | \$ 905,765   |
|   | =====        |

See Notes to Consolidated Financial Statements

2

CareerEngine Network, Inc. and Subsidiaries  
Consolidated Statements of Operations

|                                   | Three Months Ended<br>June 30, |                     |
|-----------------------------------|--------------------------------|---------------------|
|                                   | 2002<br>(Unaudited)            | 2001<br>(Unaudited) |
|                                   | -----                          | -----               |
| Revenues:                         |                                |                     |
| Service fee income                | \$ 58,428                      | \$ 290,705          |
| Income on securities transactions |                                |                     |
| Interest income                   | 635                            | 9,778               |
|                                   | -----                          | -----               |
|                                   | 59,063                         | 300,483             |
|                                   | -----                          | -----               |
| Expenses:                         |                                |                     |
| Compensation and related costs    | 168,716                        | 455,530             |
| Advertising                       |                                | 63,370              |
| General and administrative        | 215,083                        | 359,035             |

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

|   |              |              |
|---|--------------|--------------|
| Interest  | 94,578       | 79,442       |
|   | -----        | -----        |
|   | 478,377      | 957,377      |
|   | -----        | -----        |
| Loss from continuing operations before items shown below                    | (419,314)    | (656,894)    |
| Gain on fixed assets destroyed in catastrophe                               | 20,887       |              |
| Reversal of Director fees accrual   |              |              |
|   | -----        | -----        |
| Loss from continuing operations before income taxes                         | (398,427)    | (656,894)    |
| Income tax provision  |              |              |
|   | -----        | -----        |
| Loss from continuing operations   | (398,427)    | (656,894)    |
| Discontinued operations:  |              |              |
| Income (loss) from discontinued operations                                  |              |              |
|   | -----        | -----        |
| Net income (loss)   | \$ (398,427) | \$ (656,894) |
|   | -----        | -----        |
| Per common share - basic and diluted:                                       |              |              |
| Loss from continuing operations   | \$ (.07)     | \$ (.12)     |
| Income (loss) from discontinued operations                                  | --           | --           |
|   | -----        | -----        |
| Net income (loss) per common share  | \$ (.07)     | \$ (.12)     |
|   | =====        | =====        |
| Weighted average number of common<br>shares outstanding - basic and diluted | 5,590,944    | 5,504,944    |
|   | =====        | =====        |

See Notes to Consolidated Financial Statements

3

CareerEngine Network, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows

|   |  |              |
|---|--|--------------|
|   |  | Six          |
|   |  | 2002         |
|   |  | (Unaudited)  |
|   |  | -----        |
| Cash flows from operating activities:   |  |              |
| Loss from continuing operations   |  | \$ (604,957) |
| Adjustments to reconcile loss from continuing operations to net cash<br>provided by (used in) operating activities: |  |              |
| Depreciation and amortization   |  | 133,928      |

4

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

|   |            |
|---|------------|
| Issuance of common stock for services   | 31,500     |
| Amortization of debt discount   | 14,884     |
| Reversal of fees due to Directors   | (55,000)   |
| Gain on fixed assets destroyed in catastrophe                                       | (152,934)  |
| Sale of marketable securities, net  |            |
| Changes in:   |            |
| Accounts and insurance claims receivable  | 185,769    |
| Other assets  | 32,274     |
| Accrued expenses and other liabilities  | 258,807    |
| Deferred grant revenue  | 116,740    |
|   | -----      |
| Cash (used in) continuing operations  | (38,989)   |
| Cash provided by (used in) discontinued operations                                  | 200,000    |
|   | -----      |
| Net cash provided by (used in) operating activities                                 | 161,011    |
|   | -----      |
| Cash flows from investing activities:   |            |
| Proceeds from surrender of life insurance policies                                  |            |
|   | -----      |
| Cash provided by continuing operations  |            |
|   | -----      |
| Net cash provided by investing activities   |            |
|   | -----      |
| Increase (decrease) in cash and cash equivalents                                    | 161,011    |
| Cash and cash equivalents at beginning of period                                    | 200,782    |
|   | -----      |
| Cash and cash equivalents at end of period  | \$ 361,793 |
|   | =====      |
| Supplemental disclosures of cash flow information related to continuing operations: |            |
| Cash paid during the period for:  |            |
| Interest  | \$ 144,000 |
| Income taxes  | \$ 5,250   |

See Notes to Consolidated Financial Statements

4

CareerEngine Network, Inc. and Subsidiaries  
Notes To Consolidated Financial Statements  
(Unaudited)

1. Catastrophe of September 11, 2001  
-----

The Company's headquarters were located at Suite 2112 of Two World Trade Center in New York City. With the complete destruction of the building, all of the Company's leasehold improvements, furniture and fixtures, and office and computer equipment located at this site were also destroyed.

The net carrying value of the destroyed assets of the Company amounted to \$356,531 at September 11, 2001. These assets consisted of:

|                        |           |
|------------------------|-----------|
| Leasehold improvements | \$ 76,809 |
|------------------------|-----------|

## Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

|                               |            |
|-------------------------------|------------|
| Furniture and fixtures        | 36,966     |
| Office and computer equipment | 242,756    |
|                               | -----      |
|                               | \$ 356,531 |
|                               | =====      |

In April 2002, the Company received insurance proceeds in amounts that have exceeded the net carrying value of the destroyed assets and, accordingly, has recorded a gain (\$152,934 for the six-month period ended June 30, 2002) on assets destroyed due to this catastrophe.

The Company also has insurance for lost business income, extra expenses related to the catastrophe, and record re-creation. The ultimate insurance proceeds expected from the lost business income and extra expense insurance policy provisions are indeterminable by the Company at this time, however, the Company has received \$12,416 on claims submitted with regard to extra expenses and has recorded such amount as a reduction of the expense incurred. The insurance proceeds received in April 2002 (\$50,000) and those claims still outstanding under the record re-creation insurance policy provisions of the Company will be sufficient to recover the Company's related costs (\$56,000).

In addition, the Company has applied for governmental assistance grants related to the catastrophe. In April 2002, the Company received a grant in the amount of \$116,740. The grant has various restrictions that could require its repayment (e.g., the Company temporarily suspending its business due to the events of September 11th and not resuming its operations in one year, or relocating a substantial portion its operations outside of New York City for a period of three years). Until such time as the grant restrictions shall no longer apply, the grant will be classified as a liability of the Company. Upon the satisfaction or lapse of the restrictions, the Company will remove the liability and record grant income on its financial statements.

Since the attack, the Company's management has been preoccupied with the relocation and reestablishment of its businesses, assessing and processing of insurance claims with the assistance of a risk manager with its insurers, and seeking sources of financing.

5

## 2. Significant Accounting Policies

-----  
The accounting policies followed by the Company are set forth in the notes to the Company's financial statements included in its Form 10-KSB, for the year ended December 31, 2001, which was filed with the Securities and Exchange Commission.

In the opinion of management, the unaudited financial statements include all adjustments necessary for a fair presentation of the Company's financial position as of June 30, 2002 and the results of its operations and its cash flows for the three-month and six-month periods ended June 30, 2002 and 2001. The financial statements as of June 30, 2002 and for the three months and six months then ended are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

The Company has incurred substantial losses from continuing operations, sustained substantial operating cash outflows, has a working capital

## Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

deficit and at June 30, 2002 has a capital deficiency. Management believes that such losses and negative operating cash flows will continue in fiscal year 2002. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent on its ability to obtain additional equity and/or debt financing to fund its operations and ultimately to achieve profitable operations. The Company is attempting to raise additional financing and has initiated a cost reduction strategy. There is no assurance that the Company will obtain additional financing or achieve profitable operations or cash flow. The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amount and classification of liabilities that might be necessary as a result of this uncertainty.

### Revenue Recognition

-----

E-recruiting fees are earned on the placement of job placement and sponsorship advertisements on the Company's web site and are recognized over the period during which the advertisements are exhibited. Revenues derived from co-branding arrangements with content providers are of a similar nature and were recognized over the period during which the advertisements are exhibited. Website construction fees are recognized ratably over the construction period. Monthly hosting and maintenance fees for such sites are recognized ratably over the period of the underlying contract.

### Derivative Financial Instruments

-----

As part of its investment strategies to profit from anticipated market movements, the Company maintained trading positions in a variety of derivative financial instruments consisting principally of futures contracts in treasuries, stocks and municipal securities. All positions were reported at fair value, and changes in fair value are reflected in operations as they occurred. The Company realized net gains from derivatives sold in the three-month and six-month periods ended June 30, 2001 of approximately \$420,000. Such amounts are included in income on securities transactions in the accompanying statements of operations. At June 30, 2002 and for the three-month and six-month periods then ended, no derivative financial instruments were held by the Company.

6

### Income (Loss) Per Share

-----

Basic income (loss) per share is based on the weighted average number of common shares outstanding. Employee stock options and outstanding warrants did not have an effect on the computation of diluted earnings per share since they were anti-dilutive.

### 3. Discontinued Operations

-----

In 1997, the Company entered into a triple net, credit type lease with Carmike, pursuant to which the Company leased to Carmike six parcels of land and the improvements thereon. Concurrently, the Company issued \$72,750,000 principal amount of its adjustable rate tender securities due

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

November 1, 2015 (the "Bonds"). The Bonds were secured by irrevocable letters of credit issued by a group of banks. In connection therewith the Company entered into a Reimbursement Agreement with Wachovia, as agent for the banks, under which the Company was obligated to remit all rent received under the lease to Wachovia to reimburse the banks for the Bond payments made by draws on their letters of credit.

On August 8, 2000, Carmike filed a petition under Chapter 11 of the United States Bankruptcy Code. As a result of that filing and Carmike's subsequent failure to pay rent to date under the lease, the Company failed to make required payments to Wachovia under the Reimbursement Agreement. Accordingly, Wachovia declared a default under the Reimbursement Agreement and accelerated all amounts due by the Company thereunder. Wachovia also directed the Trustee under the related Indenture to redeem the Bonds. Such amounts were paid entirely through draws on the related letters of credit and were not paid with funds of the Company. However, as the Bonds are no longer outstanding, all unamortized financing costs (amounting to \$804,667) relating thereto were expensed. In addition, Carmike has not disaffirmed the lease and continues to occupy the six theaters.

Interest and fees which have been accrued on the reimbursement obligations through December 2001 have been recorded with a corresponding amount of accrued rent receivable from Carmike.

On January 31, 2002 title to the six theaters was transferred to the banks in payment of the non-recourse debt under the Reimbursement Agreement and the Company recognized a gain of \$3,512,884, representing the excess of the liabilities over the carrying value of the assets relating to the real estate leased to Carmike. In addition, the Company received \$294,755 in connection with the sale of its common membership interest in Movieplex relating to the transfer of title of the movie theaters to Wachovia.

7

Income (loss) from discontinued operations for the three-month and six-month periods ended June 30, 2002 and 2001 are as follows:

|  |       | Three Months<br>Ended<br>June 30,<br>----- |              |            |
|--|-------|--|--------------|------------|
|  | 2002  |  | 2001         | 2002       |
|  | ----- |  | -----        | -----      |
| Revenues:                                  |       |  |              |            |
| Rental income                              | \$    |  | \$ 3,749,130 | \$ 1,249,7 |
| Gain on extinguishment<br>of debt          |       |  |              | 3,512,8    |
| Common membership<br>interest transfer fee |       |  |              | 294,7      |
|  | ----- |  | -----        | -----      |
|  |       |  | 3,749,130    | 5,057,3    |
|  | ----- |  | -----        | -----      |
| Expenses:                                  |       |  |              |            |
| Interest                                   |       |  | 3,749,130    | 1,249,7    |
| Other                                      |       |  |              | 94,7       |



Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

|       |           |            |
|-------|-----------|------------|
| ----- | -----     | -----      |
|       | 3,749,130 | 1,344,4    |
| ----- | -----     | -----      |
| \$ -- | \$ --     | \$ 3,712,8 |
| ===== | =====     | =====      |

4. Litigation  
-----

The Company is a party to various vendor related litigations. Based on the opinion of legal counsel, the Company has accrued a liability of approximately \$180,000 and, accordingly, this liability has been reflected in accounts payable and accrued expenses.

5. Debentures Payable  
-----

In 2000, the Company privately placed 48 units of its securities. Each unit consisted of a \$50,000 subordinated convertible debenture, 12,500 Class A Common Stock Warrants and 12,500 Class B Common Stock Warrants. Each \$50,000 debenture is convertible into 25,000 shares of common stock. The Class A and B Warrants are exercisable at \$4 and \$6, respectively. The debentures bear interest at 12%, payable quarterly, commencing October 1, 2000 and mature March 31, 2010. The Class A and B Warrants are exercisable at any time until March 31, 2003 and March 31, 2005, respectively. In the private placement, officers of the Company acquired 10.5 units for \$525,000.

The aggregate number of shares issuable upon the exercise of all the warrants and the conversion of all the debentures is 2,400,000. The Company incurred an interest charge of \$246,875 due to the beneficial conversion feature of the debentures. In addition, the Company valued the warrants, utilizing the Black-Scholes Pricing Model, at \$740,000 which is being accounted for as debt discount and will be amortized over the life of the debentures. The amounts ascribed to the beneficial conversion feature and the warrants aggregating \$986,875 were credited to paid-in-surplus.

8

The Company paid the placement agent cash of \$375,025 and granted the agent a warrant exercisable through June 2005 (valued at \$200,000) to purchase 5 units at \$60,000 per unit. Of the total consideration, \$426,658 was accounted for as deferred financing costs which is being amortized over the life of the debentures and \$148,367 deemed attributable to the warrant portion of the unit, was charged to paid-in surplus.

Interest accrued on debentures payable, relating to the period April 1, 2002 through June 30, 2002 and due July 1, 2002, amounting to \$72,000 has not been paid to date.

6. Income Taxes  
-----

Commencing in August 2000, pursuant to an understanding with the IRS, the Company began paying \$30,000 per month until the assessed tax deficiency relating to the years 1985 through 1989 and interest thereon is fully satisfied. However, after a technical review by special tax counsel of the

## Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

tax deficiency and related interest, management of the Company believes that there may be a basis for its reduction. Management is actively pursuing such a reduction at this time. Pending the ultimate resolution of this matter with the IRS, in September 2001 the Company temporarily suspended making monthly payments. At June 30, 2002, the outstanding balance of the liability amounted to \$882,393 including related additional state and local taxes and interest.

### 7. Capital Contribution and Director Fees

-----

As of March 31, 2002, significant shareholders of the Company, who are also Directors and Officers, have agreed to permanently forego \$266,250 of compensation earned by them during 2001 and 2000. These individuals, subject to change upon further notice, are currently performing their Company functions without compensation. The amount of the forgone salaries through December 31, 2001 has been reflected in the financial statements as contributions to the capital of the Company during the six-month period ended June 30, 2002.

In addition, at March 31, 2002, the Company's five outside directors have similarly agreed to forego previously accrued and unpaid directors' fees earned through December 31, 2001 and agreed to forgo future compensation until further notice. The reversal of previously accrued fees has been reflected in the Company's Statement of Operations for the six-month period ended June 30, 2002.

9

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company's headquarters were located at Suite 2112 of Two World Trade Center in New York City. The catastrophe of September 11, 2001 involved no injury to any of the Company's employees. However, with the complete destruction of the building, all of the Company's leasehold improvements, furniture and fixtures, and office and computer equipment located at this site were also destroyed.

Since the attack, the Company's management had been preoccupied with the relocation and reestablishment of its business, assessing and processing of insurance claims with the assistance of a risk manager with its insurers, and seeking sources of financing. As of the date hereof, the Company has re-established all its operations at its new offices located at 200 West 57th Street, Suite 1103, New York, NY 10019. It has also recreated all its critical accounting records lost due to the catastrophe. In April 2002, the Company received insurance proceeds in amounts that have exceeded the net carrying value of the destroyed assets and, accordingly, has recorded a gain (\$152,934 for the six-month period ended June 30, 2002) on assets destroyed due to this catastrophe.

The Company also has insurance for lost business income, extra expenses related to the catastrophe, and record re-creation. The ultimate insurance proceeds expected from the lost business income and extra expense insurance policy provisions are indeterminable by the Company at this time, however, the Company has received \$12,416 on claims submitted with regard to extra expenses and has recorded such amount as a reduction of the expense incurred. The insurance proceeds received in April 2002 (\$50,000) and those claims still outstanding from the record re-creation insurance policy

## Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

provisions of the Company will be sufficient to recover the Company's related costs (\$56,000).

In addition, the Company has applied for numerous governmental assistance grants related to the catastrophe. In April 2002, the Company received a grant in the amount of \$116,740. The grant has various restrictions that could require its repayment (e.g., the Company temporarily suspending its business due to the events of September 11th and not resuming its operations in one year, or relocating a substantial portion its operations outside of New York City for a period of three years). Until such time as the grant restrictions shall no longer apply, the grant will be recorded a liability of the Company. Upon the satisfaction of the restrictions, the Company will remove the liability and record grant income on its financial statements.

In August 2000, we discontinued our merchant banking operations, which consisted of our real estate project with Carmike Cinemas, Inc., and our financial consulting operations. Accordingly, our remaining operations are solely from our e-recruiting segment. Our financial resources and our management's efforts are now focused entirely on this segment.

E-recruiting activities are derived from the operations of the two divisions of our wholly-owned subsidiary, CareerEngine, Inc. These divisions, CareerEngine Network and CareerEngine Solutions, provide on- and off-line companies with products and services addressed to meeting on-line recruiting problems.

10

### A. Results of Operations:

-----  
Three-Month Period Ended June 30, 2002 Compared to the Three-Month Period Ended June 30, 2001

#### Revenues

Total revenues from continuing operations decreased to \$59,063 for the three-month period ended June 30, 2002 from \$300,483 for the three-month period ended June 30, 2001.

Service fee income decreased to \$58,428 for the three-month period ended June 30, 2002 from \$290,705 for the three-month period ended June 30, 2001 as the operations of our subsidiary, CareerEngine, Inc. have been significantly reduced since January 2001.

Income on securities transactions, net decreased to nil for the three-month period ended June 30, 2002 and for the three-month period ended June 30, 2001 due to the cessation of cash management and investing activities effective April 1, 2001. This revenue category includes the net profit from our cash management and our investing in futures, puts, calls, municipals and other securities.

Interest income decreased to \$635 for the three-month period ended June 30, 2002 from \$9,778 for the three-month period ended June 30, 2001 due to the reduced amount of funds available for investment.

#### Expenses

## Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

Total expenses from continuing operations decreased to \$478,377 for the three-month period ended June 30, 2002 from \$957,377 for the three-month period ended June 30, 2001.

Compensation and related costs decreased to \$168,716 for the three-month period ended June 30, 2002 from \$455,530 for the three-month period ended June 30, 2001. The decrease is due to the Company's cost reduction strategy, consisting primarily of significant staff reductions, which commenced in December 2000 and the cessation of two officers' salaries as of December 31, 2001.

Advertising expense decreased to nil for the three-month period ended June 30, 2002 from \$63,370 for the three-month period ended June 30, 2001 as CareerEngine, Inc. continued its cost reduction program, focused primarily on compensation and advertising related expenditures.

General and administrative expenses decreased to \$215,083 for the three-month period ended June 30, 2002 from \$359,035 for the three-month period ended June 30, 2001 due primarily to the significantly reduced operating costs associated with our subsidiary, CareerEngine, Inc. These costs consisted principally of travel, telephone and legal expenses, supplies, and website related expenditures.

11

### Other Items

Gain on fixed assets destroyed in catastrophe increased to \$20,887 for the three-month period ended June 30, 2002 from nil for the three-month period ended June 30, 2001 due to the destruction of the World Trade Center where the Company was headquartered.

### Operating Loss

On a pre-tax basis, we had a loss of \$398,427 for the three-month period ended June 30, 2002 from continuing operations compared with a loss of \$656,894 for the three-month period ended June 30, 2001 from continuing operations due to the expenses associated with CareerEngine, Inc.

Our loss from continuing operations for the three-month period ended June 30, 2002 was \$398,427 compared with a loss from continuing operations of \$656,894 for the three-month period ended June 30, 2001. For the three-month period ended June 30, 2002, loss per common share from continuing operations, basic and diluted, was \$.07 per share. For the three-month period ended June 30, 2001, loss per common share from continuing operations, basic and diluted, was \$.12 per share.

Our income from discontinued operations for the three-month period ended June 30, 2002 was nil compared with a loss from discontinued operations of nil for the three-month period ended June 30, 2001 due primarily to the transfer of title, during the three-month period ended March 31, 2002, to the six theaters leased to Carmike Cinemas, Inc. by the Company to the banks in payment of the related non-recourse debt, and the consequential recognition of the related gain, during the three-month period ended March 31, 2002, representing the excess of liabilities over the carrying value of the theaters. For the three-month period ended June 30, 2002 and the three-month period ended June 30, 2001 income per common share from discontinued operations, basic and diluted, was nil per share.

## Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

Our net loss for the three-month period ended June 30, 2002 was \$398,427 compared with a net loss of \$656,894 for the three-month period ended June 30, 2001. For the three-month period ended June 30, 2002, net loss per common share, basic and diluted, was \$.07 per share. For the three-month period ended June 30, 2001, net loss per common share, basic and diluted, was \$.12 per share.

12

Six-Month Period Ended June 30, 2002 Compared to the Six-Month Period Ended June 30, 2001

### Revenues

Total revenues from continuing operations decreased to \$134,155 for the six-month period ended June 30, 2002 from \$1,010,820 for the six-month period ended June 30, 2001.

Service fee income decreased to \$133,116 for the six-month period ended June 30, 2002 from \$573,941 for the six-month period ended June 30, 2001 as the operations of our subsidiary, CareerEngine, Inc. have been significantly reduced since January 2001.

Income on securities transactions, net decreased to nil for the six-month period ended June 30, 2002 from \$420,253 for the six-month period ended June 30, 2001 due to the cessation of cash management and investing activities effective April 1, 2001. This revenue category included the net profit from our cash management and our investing in futures, puts, calls, municipals and other securities.

Interest income decreased to \$1,039 for the six-month period ended June 30, 2002 from \$16,626 for the six-month period ended June 30, 2001 due to the reduced amount of funds available for investment.

### Expenses

Total expenses from continuing operations decreased to \$941,796 for the six-month period ended June 30, 2002 from \$2,659,520 for the six-month period ended June 30, 2001.

Compensation and related costs decreased to \$356,503 for the six-month period ended June 30, 2002 from \$1,314,245 for the six-month period ended June 30, 2001. The decrease is due to the Company's cost reduction strategy, consisting primarily of significant staff reductions, which commenced in December 2000 and the cessation of two officers' salaries as of December 31, 2001.

Advertising expense decreased to \$10,000 for the six-month period ended June 30, 2002 from \$251,249 for the six-month period ended June 30, 2001 as CareerEngine, Inc. continued its cost reduction program, focused primarily on compensation and advertising related expenditures.

General and administrative expenses decreased to \$386,558 for the six-month period ended June 30, 2002 from \$863,142 for the six-month period ended June 30, 2001 due primarily to the significantly reduced operating costs associated with our subsidiary, CareerEngine, Inc. These costs consisted principally of travel, telephone and legal expenses, supplies, and website related expenditures.

Other Items

Gain on fixed assets destroyed in catastrophe increased to \$152,934 for the six-month period ended June 30, 2002 from nil for the six-month period ended June 30, 2001 due to the destruction of the World Trade Center where the Company was headquartered.

Reversal of Directors fees increased to \$55,000 for the six-month period ended June 30, 2002 from nil for the six-month period ended June 30, 2001. This amount relates to the forgiveness of fees earned by the outside Directors and their agreement to forego these fees until further notice.

Operating Loss

On a pre-tax basis, we had a loss of \$599,707 for the six-month period ended June 30, 2002 from continuing operations compared with a loss of \$1,648,700 for the six-month period ended June 30, 2001 from continuing operations due to the expenses associated with CareerEngine, Inc.

Our loss from continuing operations for the six-month period ended June 30, 2002 was \$604,957 compared with a loss from continuing operations of \$1,658,900 for the six-month period ended June 30, 2001. For the six-month period ended June 30, 2002, loss per common share from continuing operations, basic and diluted, was \$.11 per share. For the six-month period ended June 30, 2001, loss per common share from continuing operations, basic and diluted, was \$.30 per share.

Our income from discontinued operations for the six-month period ended June 30, 2002 was \$3,712,884 compared with a loss from discontinued operations of \$87,750 for the six-month period ended June 30, 2001 due primarily to the transfer of title to the six theaters leased to Carmike Cinemas, Inc. by the Company to the banks in payment of the related non-recourse debt, and the consequential recognition of the related gain representing the excess of liabilities over the carrying value of the theaters. For the six-month period ended June 30, 2002, income per common share from discontinued operations, basic and diluted, was \$.67 per share. For the six-month period ended June 30, 2001, loss per common share from discontinued operations, basic and diluted, was \$.02 per share.

Our net income for the six-month period ended June 30, 2002 was \$3,107,927 compared with a net loss of \$1,746,650 for the six-month period ended June 30, 2001. For the six-month period ended June 30, 2002, net income per common share, basic and diluted, was \$.56 per share. For the six-month period ended June 30, 2001, net loss per common share, basic and diluted, was \$.32 per share.

B. Liquidity and Capital Resources

-----  
The Company has incurred substantial losses from continuing operations, sustained substantial operating cash outflows, has a working capital deficit and at June 30, 2002 has a capital deficiency. Management believes

## Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

that such losses and negative operating cash flows will continue in fiscal year 2002. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent on its ability to obtain additional equity and/or debt financing to fund its operations and ultimately to achieve profitable operations. The Company is attempting to raise additional financing and has initiated a cost reduction strategy. However, the Company has been notified that, subject to procedural requirements of the American Stock Exchange, its stock may be delisted. There is no assurance that the Company will obtain additional financing or achieve profitable operations or cash flow. The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amount and classification of liabilities that might be necessary as a result of this uncertainty.

Our cost reduction strategy since December 14, 2000 has primarily consisted of an 84% staff reduction, and a reduction of our monthly advertising expenditure rate to a level that is approximately 96% less than comparable expenditure rate of a year ago.

Historically, we have sustained our operations primarily from the use of our own financial resources, the net proceeds generated from our cash management activities, and from the proceeds of the private financing of units completed in June and August 2000. We are seeking sources of financing, most likely from one or more additional public or private equity or debt offerings. We currently have no commitments for any of such additional funding. We may not be able to raise needed cash on terms acceptable to us or at all. Financings may be on terms that are dilutive or potentially dilutive to our stockholders.

We do not have any material commitments for capital expenditures as of June 30, 2002.

### C. American Stock Exchange

-----  
The Company received a letter dated March 15, 2002 from the Exchange (the "Letter") indicating that the Company is not in compliance with the Exchange's continuing listing requirements in that the Company has sustained losses from continuing operations and/or net losses in three of its four most recent fiscal years and its Stockholders' Equity is less than \$4,000,000.

On April 16, 2002 the Company submitted to the Exchange its detailed plan to regain compliance. The Exchange approved the Company's plan on June 7, 2002. The plan is subject to periodic monitoring by the Exchange. Assuming the Company reasonably achieves its scheduled financial milestones as determined by the Exchange, the Company will have until December 31, 2002 to regain compliance with the continuing listing requirements of the Exchange. If the Company it does not reasonably achieve its scheduled financial milestones as determined by the Exchange, or its Stockholders' Equity does not equal or exceed \$4,000,000 by December 31, 2002, the Company will lose its listing on the Exchange.

The Company is attempting to raise additional financing to regain compliance. Furthermore, the Company is actively pursuing other alternatives as well so as maintain its listing on the Exchange.

D. Inflation  
-----

The Company believes that inflation does not significantly impact its current operations.

16

PART II

OTHER INFORMATION

Item 5. Other Information.

Certain statements under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Form 10-QSB constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements are based on current expectations and information available to management at this time. They may involve known risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors which could cause actual results to differ from the forward looking statements include, among others, the following: general economic and business conditions; competition; the success of operating initiatives relating to the Company's technology related subsidiary and the Company's financial consulting services; development and operating costs; fluctuations in interest rates; the existence or absence of adverse publicity; changes in business strategy or development plans; quality of management; availability, terms and deployment of capital; business abilities and judgment of personnel; availability of qualified personnel; labor and employee benefit costs; and changes in or the failure to comply with government regulations.

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

- (a) Exhibit 99: Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

A statement regarding the computation of per share earnings is omitted because the computation is described in Note 2 of the Notes to Consolidated Financial Statements (Unaudited) in this Form 10-QSB.

- (b) Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the six months ended June 30, 2002.

17



Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

SIGNATURES

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

CAREERENGINE NETWORK, INC.

/s/ George W. Benoit

Date: August 14, 2002

-----  
George W. Benoit, Chairman of the Board  
of Directors, President, and Chief Executive  
Officer

/s/ Anthony S. Conigliaro

Date: August 14, 2002

-----  
Anthony S. Conigliaro, Vice President and  
Chief Financial Officer