

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

CAREERENGINE NETWORK INC
Form 10QSB
November 15, 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 September 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 | Outstanding at October 31, 2002 |
|--------------------------------|---------------------------------|
| ----- | ----- |
| Common stock - par value \$.10 | 5,590,944 shares |
| ----- | ----- |

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

Item 1. Financial Statements.

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 Annual Report on 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 nine-months ended September 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

| | September 30, 2002 (Unaudited) | Dec |
|--|--------------------------------------|-------|
| | ----- | ----- |
| ASSETS | | |
| Current: | | |
| Cash and cash equivalents | \$ 359,217 | \$ |
| Accounts receivable, net | 30,507 | |
| Insurance claims receivable | 54,389 | |
| Other | 14,500 | |
| | ----- | ----- |
| Total current assets | 458,613 | |
| Fixed assets, net | 44,335 | |
| Deferred financing costs, net | 331,337 | |
| Other | | |
| | ----- | ----- |
| Total assets | \$ 834,285 | \$ 1 |
| | ===== | ===== |
| LIABILITIES | | |
| Current: | | |
| Accounts payable and accrued expenses | \$ 413,788 | \$ |
| Interest payable | 144,000 | |
| Tax assessment payable | 897,792 | |
| Excess of liabilities over assets of discontinued operations | | 3 |

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

| | | |
|---|--------------|------|
| Total current liabilities | 1,455,580 | 5 |
| Debentures payable, net of unamortized discount of \$669,422 in 2002 and \$691,748 in 2001 | 1,730,578 | 1 |
| Deferred grant revenue | 291,827 | |
| Total liabilities | 3,477,985 | 7 |
| Commitments and contingencies | | |
| CAPITAL (DEFICIT) | | |
| Preferred stock - authorized 1,000,000 shares, par value \$0.10; none issued | | |
| Common stock - authorized 20,000,000 shares, par value \$0.10; 6,829,600 and 6,789,600 shares issued in 2002 and 2001, respectively | 682,960 | |
| Paid-in surplus | 16,290,691 | 15 |
| Accumulated deficit | (16,744,251) | (19) |
| | 229,400 | (2) |
| Less treasury stock, at cost - 1,238,656 shares | (2,873,100) | (2) |
| Total deficit | (2,643,700) | (5) |
| Total liabilities and deficit | \$ 834,285 | \$ 1 |

See Notes to Consolidated Financial Statements

2

CareerEngine Network, Inc. and Subsidiaries
Consolidated Statements of Operations

| | Three Months Ended September 30, | |
|-----------------------------------|-------------------------------------|---------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) |
| Revenues: | | |
| Service fee income | \$ 58,702 | \$ 138,923 |
| Income on securities transactions | | |
| Interest income | 647 | 4,704 |
| | 59,349 | 143,627 |
| Expenses: | | |
| Compensation and related costs | 134,256 | 373,626 |

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

| | | |
|---|--------------|--------------|
| Advertising | | 4,649 |
| General and administrative | 86,352 | 263,064 |
| Interest | 94,841 | 79,192 |
| | ----- | ----- |
| | 315,449 | 720,531 |
| | ----- | ----- |
| Loss from continuing operations before items shown below | (256,100) | (576,904) |
| Gain on fixed assets destroyed in catastrophe | | |
| Reversal of Director fees accrual | | |
| | ----- | ----- |
| Loss from continuing operations before income taxes | (256,100) | (576,904) |
| Income tax provision | | |
| | ----- | ----- |
| Loss from continuing operations | (256,100) | (576,904) |
| | ----- | ----- |
| Discontinued operations: | | |
| Income (loss) from discontinued operations | | |
| Net income (loss) | \$ (256,100) | \$ (576,904) |
| | ===== | ===== |
| Per common share - basic and diluted: | | |
| Loss from continuing operations | \$ (.05) | \$ (.10) |
| Income (loss) from discontinued operations | -- | -- |
| | ----- | ----- |
| Net income (loss) per common share | \$ (.05) | \$ (.10) |
| | ===== | ===== |
| Weighted average number of common shares outstanding - basic and diluted | 5,590,944 | 5,504,944 |

3

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

| | Nine Months E | |
|---|---------------|------|
| | ----- | |
| | September 3 | |
| | ----- | |
| | 2002 | (U |
| | (Unaudited) | (U |
| Cash flows from operating activities: | | |
| Loss from continuing operations | \$ (861,057) | \$ (|
| Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 191,818 | |

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

| | | |
|---|------------|-------|
| Issuance of common stock for services | 31,500 | |
| Amortization of debt discount | 22,326 | |
| 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 | 485,610 | |
| Other assets | 49,315 | |
| Accrued expenses and other liabilities | (44,970) | |
| Deferred grant revenue | 291,827 | |
| | ----- | |
| Cash (used in) continuing operations | (41,565) | |
| Cash provided by discontinued operations | 200,000 | |
| | ----- | |
| Net cash provided by (used in) operating activities | 158,435 | |
| | ----- | |
| 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 | 158,435 | |
| Cash and cash equivalents at beginning of period | 200,782 | |
| | ----- | |
| Cash and cash equivalents at end of period | \$ 359,217 | \$ |
| | ===== | ===== |
| Supplemental disclosures of cash flow information related to continuing operations: | | |
| Cash paid during the period for: | | |
| Interest | \$ 72,000 | \$ |
| Income taxes | \$ 5,250 | \$ |

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 nine-month period ended September 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 (\$65,000).

In addition, the Company has applied for governmental assistance grants related to the catastrophe. In April and September 2002, the Company received grants aggregating \$291,827. The grants have various restrictions that could require their 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 grants 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 September 30, 2002 and the results of its operations and its cash flows for the three-month and nine-month periods ended September 30, 2002 and 2001. The financial statements as of September 30, 2002 and for the three months and nine 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,

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

sustained substantial operating cash outflows, has a working capital deficit and at September 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 implemented 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 nine-month periods ended September 30, 2001 of approximately \$420,000. Such amounts are included in income on securities transactions in the accompanying statements of operations. At September 30, 2002 and for the three-month and nine-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 nine-month periods ended September 30, 2002 and 2001 are as follows:

| | Three Months | | Nine Months | |
|-----------------------------------|------------------------|--------------|------------------------|--------------|
| | Ended September 30, | | Ended September 30, | |
| | 2002 | 2001 | 2002 | 2001 |
| Revenues: | | | | |
| Rental income | \$ | \$ 3,749,130 | \$ 1,249,710 | \$ 7,498,260 |
| Gain on extinguishment of debt | | | 3,512,884 | |
| Common membership | | | 294,755 | |
| interest transfer fee | | 3,749,130 | 5,057,349 | 7,498,260 |
| Expenses: | | | | |
| Interest | | 3,749,130 | 1,249,710 | 7,498,260 |

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

| | | | | |
|-------|-------|-----------|--------------|-----------|
| Other | | | 94,755 | 87,75 |
| | ----- | ----- | ----- | ----- |
| | | 3,749,130 | 1,344,465 | 7,586,01 |
| | ----- | ----- | ----- | ----- |
| | \$ -- | \$ -- | \$ 3,712,884 | \$ (87,75 |
| | ===== | ===== | ===== | ===== |

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 \$140,000 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.

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 periods April 1, 2002 through June 30, 2002 (due July 1, 2002) and July 1, 2002 through September 30, 2002 (due October 1, 2002), aggregating \$144,000 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

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

satisfied. However, after a technical review by special tax counsel of the 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 September 30, 2002, the outstanding balance of the liability amounted to \$897,792 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 nine-month period ended September 30, 2002.

9

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 nine-month period ended September 30, 2002.

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

General

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 nine-month period ended September 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,

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

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 provisions of the Company will be sufficient to recover the Company's related costs (\$65,000).

In addition, the Company has applied for numerous governmental assistance grants related to the catastrophe. In April and September 2002, the Company received grants aggregating \$291,827. The grants have 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 grants 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

Critical Accounting Policies

The Company's condensed consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America. Certain accounting policies have a significant impact on amounts reported in the financial statements. A summary of those significant accounting policies can be found in Note B to the Company's financial statements included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001. The Company has not adopted any significant new accounting policies during the nine months ended September 30, 2002.

A significant judgment made by management in the preparation of the Company's financial statements is the determination of the allowance for doubtful accounts. This determination is made periodically in the ordinary course of accounting.

Forward Looking Statements

Certain statements in this Quarterly Report on Form 10-QSB constitute "forward-looking statements" relating to the Company within the meaning of the Private Securities Litigation Reform Act of 1995. All statements regarding future events, our financial performance and operating results, our business strategy and our financing plans are forward-looking statements. In some cases you can identify forward-looking statements by terminology, such as "may," "will," "would," "should," "could," "expect,"

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

"intend," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms or other comparable terminology. These statements are only predictions. Known and unknown risks, uncertainties and other factors could cause actual results to differ materially from those contemplated by the statements. In evaluating these statements, you should specifically consider various factors that may cause our actual results to differ materially from any forward-looking statements.

11

A. Results of Operations:

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

Revenues

Total revenues from continuing operations decreased to \$59,349 for the three-month period ended September 30, 2002 from \$143,627 for the three-month period ended September 30, 2001.

Service fee income decreased to \$58,702 for the three-month period ended September 30, 2002 from \$138,923 for the three-month period ended September 30, 2001 as the operations of our subsidiary, CareerEngine, Inc. have been significantly reduced since January 2001.

Interest income decreased to \$647 for the three-month period ended September 30, 2002 from \$4,704 for the three-month period ended September 30, 2001 due to the reduced amount of funds available for investment and lower interest rates.

Expenses

Total expenses from continuing operations decreased to \$315,449 for the three-month period ended September 30, 2002 from \$720,531 for the three-month period ended September 30, 2001.

Compensation and related costs decreased to \$134,256 for the three-month period ended September 30, 2002 from \$373,626 for the three-month period ended September 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 September 30, 2002 from \$4,649 for the three-month period ended September 30, 2001 as CareerEngine, Inc. continued its cost reduction program, focused primarily on compensation and advertising related expenditures.

General and administrative expenses decreased to \$86,352 for the three-month period ended September 30, 2002 from \$263,064 for the three-month period ended September 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.

12

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

Operating Loss

On a pre-tax basis, we had a loss of \$256,100 for the three-month period ended September 30, 2002 from continuing operations compared with a loss of \$576,904 for the three-month period ended September 30, 2001 from continuing operations due to the expenses associated with CareerEngine, Inc.

Our loss from continuing operations and net loss for the three-month period ended September 30, 2002 was \$256,100 compared with a loss from continuing operations and net loss of \$576,904 for the three-month period ended September 30, 2001. For the three-month period ended September 30, 2002, loss per common share from continuing operations and net loss per common share, basic and diluted, was \$.05 per share. For the three-month period ended September 30, 2001, loss per common share from continuing operations and net loss per common share, basic and diluted, was \$.10 per share.

13

Nine-Month Period Ended September 30, 2002 Compared to the Nine-Month Period Ended September 30, 2001

Revenues

Total revenues from continuing operations decreased to \$193,504 for the nine-month period ended September 30, 2002 from \$1,154,447 for the nine-month period ended September 30, 2001.

Service fee income decreased to \$191,818 for the nine-month period ended September 30, 2002 from \$712,864 for the nine-month period ended September 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 nine-month period ended September 30, 2002 from \$420,253 for the nine-month period ended September 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 \$1,686 for the nine-month period ended September 30, 2002 from \$21,330 for the nine-month period ended September 30, 2001 due to the reduced amount of funds available for investment and lower interest rates.

Expenses

Total expenses from continuing operations decreased to \$1,257,245 for the nine-month period ended September 30, 2002 from \$3,380,051 for the nine-month period ended September 30, 2001.

Compensation and related costs decreased to \$490,759 for the nine-month period ended September 30, 2002 from \$1,687,871 for the nine-month period ended September 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'

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

salaries as of December 31, 2001.

Advertising expense decreased to \$10,000 for the nine-month period ended September 30, 2002 from \$255,898 for the nine-month period ended September 30, 2001 as CareerEngine, Inc. continued its cost reduction program, which focused primarily on compensation and advertising related expenditures.

General and administrative expenses decreased to \$472,910 for the nine-month period ended September 30, 2002 from \$1,126,206 for the nine-month period ended September 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.

14

Other Items

Gain on fixed assets destroyed in catastrophe increased to \$152,934 for the nine-month period ended September 30, 2002 from nil for the nine-month period ended September 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 nine-month period ended September 30, 2002 from nil for the nine-month period ended September 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 \$855,807 for the nine-month period ended September 30, 2002 from continuing operations compared with a loss of \$2,225,604 for the nine-month period ended September 30, 2001 from continuing operations due to the expenses associated with CareerEngine, Inc.

Our loss from continuing operations for the nine-month period ended September 30, 2002 was \$861,057 compared with a loss from continuing operations of \$2,235,804 for the nine-month period ended September 30, 2001. For the nine-month period ended September 30, 2002, loss per common share from continuing operations, basic and diluted, was \$.15 per share. For the nine-month period ended September 30, 2001, loss per common share from continuing operations, basic and diluted, was \$.40 per share.

Our income from discontinued operations for the nine-month period ended September 30, 2002 was \$3,712,884 compared with a loss from discontinued operations of \$87,750 for the nine-month period ended September 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 nine-month period ended September 30, 2002, income per common share from discontinued operations, basic and diluted, was \$.66 per share. For the nine-month period ended September 30, 2001, loss per common share from discontinued operations, basic and diluted, was \$.02 per share.

Our net income for the nine-month period ended September 30, 2002 was \$2,851,827 compared with a net loss of \$2,323,554 for the nine-month period ended September 30, 2001. For the nine-month period ended September 30,

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

2002, net income per common share, basic and diluted, was \$.51 per share. For the nine-month period ended September 30, 2001, net loss per common share, basic and diluted, was \$.42 per share.

15

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 September 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. 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 the effective elimination of our advertising expenditure.

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 September 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

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

to regain compliance with the continuing listing requirements of the Exchange. If the Company 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.

16

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

D. Inflation

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

Item 3. Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, they have concluded that the Company's disclosure controls and procedures are effective in ensuring that all material information required to be filed in this Quarterly Report on Form 10-QSB has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date they completed their evaluation.

17

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

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 \$140,000 and, accordingly, this liability has been reflected in accounts payable and accrued expenses in the Company's financial statements.

Item 5. Other Information.

None.

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

- (a) Exhibit 99.1: Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Exhibit 99.2: Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

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 nine months ended September 30, 2002.

18

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: November 14, 2002

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

/s/ Anthony S. Conigliaro

Date: November 14, 2002

Anthony S. Conigliaro, Vice President and
Chief Financial Officer

19

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CareerEngine Network, Inc. (the "Registrant") on Form 10-QSB for the quarterly period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George W. Benoit, Chairman of the Board of Directors, President, and Chief Executive Officer of the Registrant, certify, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed the Report of the Registrant;
2. To the best of my knowledge, the Report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by the Report;
3. To the best of my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in the Report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) for the Registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the periods in which the Report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the Report (the "Evaluation Date"); and
 - c) presented in the Report are our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the Audit Committee of Registrant's Board of Directors:
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

20

6. The Registrant's other certifying officer and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ George W. Benoit

Date: November 14, 2002

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

21

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CareerEngine Network, Inc. (the

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

"Registrant") on Form 10-QSB for the quarterly period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony S. Conigliaro, Vice President and Chief Financial Officer of the Registrant, certify, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed the Report of the Registrant;
2. To the best of my knowledge, the Report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by the Report;
3. To the best of my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in the Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) for the Registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the periods in which the Report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the Report (the "Evaluation Date"); and
 - c) presented in the Report are our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the Audit Committee of Registrant's Board of Directors:
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officer and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Edgar Filing: CAREERENGINE NETWORK INC - Form 10QSB

/s/ Anthony S. Conigliaro

Date: November 14, 2002

Anthony S. Conigliaro, Vice President and
Chief Financial Officer