BANKENGINE TECHNOLOGIES INC
Form 10QSB
April 15, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended February 28, 2003

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-27773

BANKENGINE TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	59-3134518
(State of incorporation)	(I.R.S. Employer Identification No.)

555 Richmond Street West, Suite 916

Toronto, Ontario, ON M5V 3B1

(Address of principal executive offices, including zip code)

(416) 860-9378

(Registrant s telephone number, including area code)

Check whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes

[ ] No

The number of shares outstanding of the registrant's Common Stock, $.001 Par Value, on April 14, 2003, was 19,015,893 shares.

BANKENGINE TECHNOLOGIES, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other statements of historical facts. These statements are subject to uncertainties and risks including, but not limited to, product and service demand and acceptance, changes in technology, economic conditions, the impact of competition and pricing, government regulation, and other risks defined in this document and in statements filed from time to time with the Securities and Exchange Commission. All such forward-looking statements are expressly qualified by these cautionary statements and any other cautionary statements that may accompany the forward-looking statements. In addition, BankEngine Technologies, Inc. disclaims any obligations to update any forward-looking statements to reflect events of circumstances after the date hereof.

PART I - FINANCIAL INFORMATION

Item 1.

Financial Statements

See pages F-1 to F-13

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this Form 10-QSB.

This filing contains forward-looking statements. The words "anticipated," "believe," "expect, "plan," "intend," "seek," "estimate," "project," "will," "could," "may," and similar expressions are intended to identify forward-looking statements. These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect the Company's current views with respect to future events and financial performance and involve risks and uncertainties, including, without limitation, general economic and business conditions, changes in foreign, political, social, and economic conditions, regulatory initiatives and compliance with governmental regulations, the ability to achieve further market penetration and additional customers, and various other matters, many of which are beyond the Company's control. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove to be incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated, or otherwise indicated. Consequently, all of the forward-looking statements made in this filing are qualified by these cautionary statements and there can be no assurance of the actual results or developments.

Callmate Telecom International, Inc. ("Callmate") acquired WebEngine Technologies International, Inc. ("WebEngine") pursuant to a Share Purchase Agreement effective as of January 5, 2001. Callmate acquired all 12,000,000 shares of common stock of WebEngine in a share exchange, which exchange was effected on a one-for-one basis. The transaction was reported on a Form 8-K filed with the Securities and Exchange Commission (the "SEC") on January 16, 2001. Subsequent thereto, Callmate changed its name to BankEngine Technologies, Inc. (the "Company") as reported on Schedule 14C. The Company filed the Definitive 14C on March 5, 2001.

On April 2, 2002, Cyberstation Computers and Support Inc., an Ontario corporation ("Cyberstation") and wholly owned subsidiary of the Company, entered into a Common Stock Purchase Agreement (the "Agreement") by and among Platinum Telecommunications, Inc. ("Platinum") and Mr. Zeeshan Saeed (the "Seller"). Pursuant to the Agreement, Cyberstation acquired seventy percent (70%) of the issued and outstanding shares of common stock of Platinum (the "Platinum Shares") in consideration for 1,800,000 shares of common stock of the Company, par value $0.001 per share. The Platinum Shares were acquired from the Seller, by whom Platinum was immediately before closing of the Agreement wholly owned. The Agreement was effective as of April 5, 2002. The transaction was negotiated on an arms-length basis. Neither the Company nor Cyberstation had any affiliation with Platinum or any of its officers or directors.

The Company is considering whether, and if so how, to reorganize its telecommunications and software development businesses, while remaining open to entering into a business combination. Presently, the Company has ceased operations at Platinum Telecommunications which was its only source of revenue. Management anticipates that the Company will be able to convert certain outstanding debt into equity and be able to raise additional working capital through the issuance of stock and through additional loans from investors.

The ability of the Company to continue as a going concern is dependent upon the Company's ability to obtain suitable and adequate financing. There can be no assurance that Management's plan will be successful.

RESULTS OF OPERATIONS

Three Months Ended February 28, 2003 Compared to Three Months Ended February 28, 2002

Revenues

Revenue for the three-month periods ended February 28, 2003 and 2002 were insignificant. The Company currently operates in the telecommunication area and is considering whether to reorganize its telecommunications and software development operations.

Cost of Sales

The cost of sales for the three-month period ended February 28, 2003 totaled $17,905, an increase of $17,905 from the comparable period in 2002. The increase is due to the change in the Company's revenue model and consists of long distance and related telecommunication services costs incurred.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended February 28, 2003 were $166,027 as compared to $73,045 for the similar period in 2002. The increase of $92,982 in selling, general and administrative expenses is principally attributable to impairment and loss on disposition of fixed assets, impairment of intangibles, and bad debts in connection with the Company's telecommunications services. Cost savings were realized through the reduction of professional fees and travel expenses.

Net Loss

Net loss for the three months ended February 28, 2003 amounted to $183,447 as compared to a net loss of $72,982 for the three months ended February 28, 2002. This increase in the net loss is principally attributable to the impairment and loss on disposition of fixed assets, impairment of intangibles, and bad debts in connection with the Company's telecommunications services offset by cost savings in the areas of professional fees and travel expenses.

Six Months Ended February 28, 2003 Compared to Six Months Ended February 28, 2002

Revenues

Revenue for the six-month period ended February 28, 2003 totaled $386,715, an increase of $380,640 over the comparable period in 2002. This increase is attributable to the acquisition of Platinum as all of the revenue is currently from telecommunication services.

Cost of Sales

The cost of sales for the six-month period ended February 28, 2003 totaled $314,879, an increase of $314,879 from the comparable period in 2002. The increase is due to the change in the Company's revenue model and consists of long distance and related telecommunication services costs incurred.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended February 28, 2003 were $260,471 as compared to $127,214 for the similar period in 2002. The increase of $133,257 in selling, general and administrative expenses is principally attributable to the impairment and loss on disposition of fixed assets, impairment of intangibles, and bad debts in connection with the Company's telecommunications services. Cost savings were realized through the reduction of professional fees and travel expenses.

Net Loss

Net loss for the six months ended February 28, 2003 amounted to $195,507 as compared to a net loss of $120,244 for the six months ended February 28, 2002. This increase in the net loss is principally attributable to the impairment and loss on disposition of fixed assets, impairment of intangibles, and bad debts in connection with the Company's telecommunications services offset by reductions in professional fees and travel costs.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

For the six-months ended February 28, 2003, net cash used in operating activities amounted to $23,554 as compared to net cash used in operating activities of $24,854 for the comparable period in 2002. The increase in the net loss sustained in the six months ended February 28, 2003 over the comparable period in the prior year, was due to non-cash expenses and therefore the cash requirement did not change appreciably.

Financing Activities

The Company presently does not have sufficient liquid assets to finance its anticipated funding needs and obligations. The Company's continued existence is dependent upon its ability to obtain needed working capital through additional equity and/or debt financing or achieve a level of sales adequate to support its cost structure. Management is actively seeking additional capital to ensure the continuation of the Company s activities and is also actively pursuing other investment opportunities. However, there can be no assurance that additional capital will be obtained or that other investment opportunities will be achieved. These uncertainties raise substantial doubt about the ability of the Company to continue as a going concern.

At February 28, 2003, the Company does not have any material commitments for capital expenditures other than for those expenditures incurred in the ordinary course of business.

CRITICAL ACCOUNTING POLICIES

The Company s significant accounting policies are outlined within Note 1 to the consolidated financial statements. Some of those accounting policies require the Company to make estimates and assumptions that affect the amounts it reports. The following items require the most significant judgment and often involve complex estimation:

Revenue recognition: The Company generally recognizes a sale when the service has been provided and risk of loss has passed to the customer, collection of the resulting receivable is reasonably assured, persuasive evidence of an arrangement exists, and the fee is fixed or determinable. The assessment of whether the fee is fixed or determinable considers whether a significant portion of the fee is due after its normal payment terms. If the Company determines that the fee is not fixed or determinable, the Company recognizes revenue at the time the fee becomes due, provided that all other revenue recognition criteria have been met.

The Company assesses collectibility based on a number of factors, including general economic and market conditions, past transaction history with the customer, and the credit-worthiness of the customer. If the Company determines that collection of the fee is not probable, then we will defer the fee and recognize revenue upon receipt of payment.

Allowance for doubtful accounts: The Company continuously monitors payments from its customers and maintains allowances for doubtful accounts, if required, for estimated losses resulting from the inability of its customers to make required payments. When the Company evaluates the adequacy of its allowances for doubtful accounts, it takes into account various factors including its accounts receivable aging, customer credit-worthiness, historical bad debts, and geographic and political risk. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of February 28, 2003, the Company s net accounts receivable balance was $61,784 after a provision for doubtful accounts of $116,202.

RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the FASB issued SFAS No. 143 Accounting for Asset Retirement Obligations . SFAS No. 143 addresses financial accounting and reporting for obligations and costs associated with the retirement of tangible long-lived assets. The Company adopted SFAS No. 143 on September 1, 2001. The adoption of SFAS 143 did not have a material impact on the Company's results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , effective for fiscal years beginning after December 15, 2001. Under SFAS No. 144 assets held for sale will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component. The Company adopted SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 did not have a material impact on the Company s results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This statement eliminates the automatic classification of gain or loss on extinguishment of debt as an extraordinary item of income and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board No. 30 "Reporting Results of Operations". This statement also requires sales-leaseback accounting for certain lease modifications that have economic effects that are similar to sales-leaseback transactions, and makes various other technical corrections to existing pronouncements. This statement will be effective for the Company for the year ending December 31, 2003. Management believes that adopting this statement will not have a material effect on the Company's results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan. Adoption of this Statement is required with the beginning of fiscal year 2003. The Company has not yet completed the evaluation of the impact of adopting this Statement.

In January 2003, the FASB issued SFAS No. 148, Accounting for Stock - Based Compensation - Transition and Disclosures. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement also amends the disclosure requirements of SFAS No. 123 to require more prominent and frequent disclosures in the financial statements about the effects of stock-based compensation. The transitional guidance and annual disclosure provisions of this Statement is effective for the August 31, 2003 financial statements. The interim reporting disclosure requirements will be effective for the company s May 31, 2003 10-QSB. In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (the Interpretation). The Interpretation elaborates on the existing disclosure requirement for most guarantees including loan guarantees, and clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair market value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of the Interpretation apply on a prospective basis to guarantees issued or modified after December 31, 2002.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities," which addresses consolidation by business enterprises of variable interest entities. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. The objective of Interpretation No. 46 is not to restrict the use of variable interest entities but to improve financial reporting by companies involved with variable interest entities. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. Interpretation No. 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company does not have any variable interest entities, and, accordingly, adoption is not expected to have a material effect on the Company.

Item 3.

Controls and Procedures

Immediately following the signature page of this report is the Certification that is required under Section 302 of the Sarbanes-Oxley Act of 2002. This section of the report contains information concerning the controls evaluation referred to in the Section 302 Certifications and the information contained herein should be read in conjunction with the Certification.

Internal controls are designed with the objective of ensuring that assets are safeguarded, transactions are authorized, and financial reports are prepared on a timely basis in accordance with generally accepted accounting principles in the United States. The disclosure procedures are designed to comply with the regu