Customer Acquisition Network Holdings, Inc.
Form 10QSB
November 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-QSB

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

For the quarterly period ended **September 30, 2007**

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

For the transition period from: _______ to _______

Commission File Number: 333-141141

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.
(Exact name of Small business issuer in its charter)

DELAWARE	**01-0692341**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
401 E. LAS OLAS BLVD., SUITE 1560 **FT. LAUDERDALE, FL**	**33301**
(Address of principal executive offices)	(Zip code)

(954)712-0000
Issuer's telephone number

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 x NO o

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act).

YES o NO x

As of November 9, 2007, 34,313,000 shares of Issuer’s common stock, with $0.001 par value per share, were outstanding.

Transitional Small Business Disclosure Format: YES o NO x

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CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

		September 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	$	2,029,093
Accounts receivable, net		1,554,047
Prepaid assets and other current assets		89,111
Total current assets		3,672,251
Property and equipment, net		114,021
Intangible assets (net of accumulated amortization of $91,094)		1,298,906
Goodwill		7,208,566
Other assets		66,212
Deferred tax asset, net		243,582
Total assets	$	12,603,538
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$	1,566,116
Accounts payable-related parties		22,412
Accrued expenses		422,073
Past service bonus		200,000
Total current liabilities		2,210,601
Deferred tax liability		519,563
Total liabilities		2,730,164
Commitments and contingencies (note 6)		
Stockholders' equity:		
Preferred Stock, $0.001 par value; 10,000,000 shares authorized, zero shares issued and outstanding		-
Common Stock, $0.001 par value; 140,000,000 shares authorized, 34,313,000 issued and outstanding		34,313
Additional paid-in capital		10,776,848
Accumulated deficit		(937,787)
Total stockholders' equity		9,873,374
Total liabilities and stockholders' equity	$	12,603,538

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three-month period ended September 30, 2007	From June 14, 2007 (inception) to September 30, 2007)
Revenues	$ 1,169,991	$ 1,169,991
Cost of revenue	1,083,613	1,083,613
Gross profit	86,378	86,378
Operating expenses:		
General and administrative	939,848	939,848
Sales and marketing	109,884	109,884
Amortization of intangible assets	91,094	91,094
Merger, acquisition and organizational costs	187,353	187,353
Total operating expenses	1,328,179	1,328,179
(Loss) from operations	(1,241,801)	(1,241,801)
Other income (expense)	23,995	23,995
(Loss) before income tax benefit	$ (1,217,806)	$ (1,217,806)
Income tax benefit	280,019	280,019
Net loss	$ (937,787)	$ (937,787)
Net loss per share - basic	(0.04)	(0.04)
Weighted average shares outstanding - basic	23,756,165	22,292,694
Net loss per share - diluted	(0.04)	(0.04)
Weighted average shares outstanding - diluted	23,756,165	22,292,694

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock				
	Stock	Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance as of June 14, 2007 (Inception)	-	$ -	$ -	$ -	$ -
Issuance of Common Stock to founders and officers	16,600,000	16,600	-	-	16,600
Recapitalization and split-off	6,575,000	6,575	(6,575)	-	-
Issuance of Common Stock through private placement, net of offering costs of $139,584	7,138,000	7,138	6,991,278	-	6,998,416
Issuance of Common Stock in connection with Desktop Interactive, Inc. merger	3,500,000	3,500	3,496,500	-	3,500,000
Conversion of convertible notes to common stock	500,000	500	252,334	-	252,834
Warrants - professional services	-	-	267,722	-	267,722
Stock compensation expense - options	-	-	38,993	-	38,993
Unamortized deferred compensation - warrants	-	-	(263,404)	-	(263,404)
Net loss	-	-	-	(937,787)	(937,787)
Balance, September 30, 2007	34,313,000	34,313	10,776,848	(937,787)	9,873,374

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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CUSTOMER ACQUISITION NETWORK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

		September 30, 2007
Net cash used in operating activities:	$	(895,542)
Cash from investing activities		
Purchases of property and equipment		(60,847)
Acquisition of business, net of cash acquired		(4,279,534)
Cash used in investing activities		(4,340,381)
Cash flows from financing activities:		
Proceeds from convertible promissory notes		250,000
Proceeds from private placement, net of offering costs paid		6,998,416
Proceeds from issuance of common stock		16,600
		7,265,016
Net cash provided by financing activities		
Net increase in cash and cash equivalents		2,029,093
Cash and cash equivalents:		
Beginning of period		-
End of period	$	2,029,093
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$	-
Non-cash investing and financing activities:		
Issuance of common stock in business combination	$	3,500,000
Conversion of convertible notes	$	250,000

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(UNAUDITED)

1. Basis of Presentation

Overview

Customer Acquisition Network, Inc. was formed in Delaware on June 14, 2007.

Outsiders Entertainment, Inc. was incorporated on March 4, 2002 under the laws of the State of Delaware. On August 28, 2007 the name was changed to Customer Acquisition Network Holdings, Inc.

On August 28, 2007, Customer Acquisition Network Holdings, Inc. ("Holdings"), entered into an Agreement and Plan of Merger and Reorganization (the “CAN Merger Agreement”) by and among Holdings, Customer Acquisition Network, Inc. ("CAN"), and CAN Acquisition Sub Inc., a newly formed, wholly-owned Delaware subsidiary of Holdings (“CAN Acquisition Sub”). The merger transaction contemplated under the CAN Merger Agreement (the “CAN Merger”) was consummated on August 28, 2007, at which time CAN Acquisition Sub was merged with and into CAN, and CAN, as the surviving corporation, became a wholly-owned subsidiary of Holdings.

On August 31, 2007, Holdings entered into an Agreement and Plan of Merger (the “Desktop Merger Agreement”) by and among Holdings, Desktop Interactive, Inc., a privately held Delaware corporation (“Desktop”), CAN and Desktop Acquisition Sub, Inc., a newly formed, wholly-owned Delaware subsidiary of Holdings (“Desktop Acquisition Sub”). The merger transaction contemplated under the Desktop Merger Agreement (the “Desktop Merger"), was consummated on August 31, 2007, at which time, Desktop Acquisition Sub was merged into Desktop, and Desktop, as the surviving corporation, became a wholly-owned subsidiary of Holdings.

After the CAN Merger, Holdings succeeded to the business of CAN as its sole line of business. Desktop owned and operated an Internet advertising network serving Internet advertising to website publishers including proprietary ad serving technology operated under the name “Interclick.” After the Desktop Merger, we also continued to operate the Desktop business.

Unless the context requires otherwise, references to the "Company," "CAN," "we," "our" and "us" for periods prior to the closing of our reverse merger on August 28, 2007, refer to Customer Acquisition Network, Inc., a private Delaware corporation that is now our wholly-owned subsidiary, and references to the "Company," "we," "our" and "us" for periods subsequent to the closing of the reverse merger on August 28, 2007, refer to Customer Acquisition Network Holdings, Inc., a publicly traded company, and its subsidiaries, Customer Acquisition Network, Inc and Desktop Acquisition Sub, Inc.

The Company was previously presented as a developments stage company. Upon its acquisition of Desktop on August 31, 2007, the Company exited the development stage.

Interim Consolidated Financial Statements

The interim condensed consolidated financial statements have been prepared from our records without audit. In the opinion of management, all adjustments, which consist of only normal recurring adjustments, to present fairly our consolidated financial position at September 30, 2007, and our consolidated results of operations and cash flows for the three months ended September 30, 2007and from June 14, 2007 (inception) to September 30, 2007, have been made.

The interim condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's form 8-K/A filed on October 18, 2007, with the U.S. Securities and Exchange Commission ("SEC") as well as the Company's form 8-K filed on August 30, 2007 and 8-K filed on September 4, 2007, or amended and restated by a form 8-K/A filed on September 5, 2007, respectively. The results of operations for the three months ended September 30, 2007 and from June 14, 2007 (inception) to September 30, 2007, are not necessarily indicative of the results to be expected for any other interim period or for the full year.

On June 28, 2007, the Company entered into employment contracts with the Company's current Chief Executive Officer, Chief Operating Officer and Chief Financial Officer (the "Officers"). As part of their employment contracts, the Officers were granted collectively, 2.6 million shares of Founders stock for which they paid the then, fair market value. Coincident with entering into the Officers' employment agreements, the Company's two majority shareholders advanced $250,000 to the Company in the form of convertible notes, convertible at $.50 or 500,000 shares.

In July, 2007, CAN commenced, through a private offering, the raising of additional equity capital for the primary purpose of acquiring internet platform networks across multiple channels of distribution (e.g. email, ad and affiliate networks) as well as funding general operations and expansion. As of the final closing of the private offering on August 31, of 2007, CAN and its parent Holdings raised $6,998,416, net of offering costs in permanent equity.

Merger with Customer Acquisition Network Holdings, Inc.

On August 28, 2007, Holdings entered into the CAN Merger Agreement by and among Holdings, CAN and CAN Acquisition Sub. Upon closing of the CAN Merger, CAN Acquisition Sub merged with and into CAN, and CAN, as the surviving corporation, became a wholly-owned subsidiary of Holdings . Prior to the CAN Merger, Holdings' name was changed to Customer Acquisition Network Holdings, Inc. and Holdings effected a 10.9583333333 -for-1 share split of its common stock (the "Stock Split").

At the closing of the CAN Merger, each share of the Company's common stock issued and outstanding, 24,238,000 immediately prior to the closing of the CAN Merger, was converted into the right to receive one share of Holdings' common stock. In addition, pursuant to the CAN Merger Agreement and under the terms of an attendant Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations, Holdings transferred all of its pre-CAN Merger assets and liabilities to its newly formed wholly owned subsidiary, Outsiders Entertainment Holdings, Inc. ("Splitco"). Subsequently, Holdings transferred all of its outstanding capital stock of Splitco to a major stockholder of Holdings in exchange for cancellation of all shares of Holdings' common stock held by such shareholder (the "Split off"). The remaining shares outstanding (6,575,000, excluding the Holdings shares issued to CAN's shareholders as a result of the CAN Merger), represent the surviving "Public Float" shares, of which 2.6 million shares are restricted.

Recapitalization

Prior to the closing of the CAN Merger, Holdings had limited operations and net assets. At the same time, CAN had significantly more capital than Holdings and had commenced certain publishing/advertising operations. In addition, as discussed in "Merger with Desktop," after the closing of the CAN Merger, Holdings consummated an acquisition (the "Desktop Acquisition") and effected the Split off. As a result of these facts and the former shareholders of CAN obtaining voting and management control of the combined entity, the CAN Merger is considered and accounted for as a recapitalization of CAN, with CAN being considered as the acquirer and Holdings the acquiree. Accordingly, the Company's financial statements for periods prior to the CAN Merger become those of the acquirer, retroactively restated for the equivalent number of shares received in the CAN Merger. Operations prior to the CAN Merger are those of the Company and earnings per share for the period prior to the CAN Merger are restated to reflect the equivalent number of shares outstanding.

On a recapitalized basis, as of September 30, 2007, upon the closing of the CAN Merger and reflecting the effects of the Split off, there are 34,313,000 total shares outstanding, 27,738,000 issued by Holdings to the CAN's shareholders and 6,575,000 shares representing the Public Float, of which 2.6 million shares are restricted.

Merger with Desktop

On August 31, 2007, Holdings entered into and consummated an Agreement and Plan of Merger (the "Desktop Merger"), wherein Holdings acquired Desktop Interactive, Inc. ("Desktop"), a privately held Delaware corporation engaged in the internet advertising business. The initial merger consideration (the "Merger Consideration") consisted of $4.0 million in cash and 3.5 million shares of Holdings' stock valued at $1 per share, for a total initial purchase price of $7.5 million. In addition, Holdings also incurred legal and other fees associated with the Desktop Merger of approximately $362,000 and agreed to pay a past service bonus of $200,000 for a total purchase price of approximately $8,062,000. The shares of Holdings' stock issued in conjunction with the Desktop Merger are subject to a 12-month lockup.

In addition to the initial merger consideration, Holdings is obligated to pay an additional $1 million (the "Earn Out") if Desktop achieves certain revenue and gross margins, as defined, in the 90 day period subsequent to closing the Desktop Merger. In addition, if Desktop achieves other certain revenues, as defined, the Earn Out is subject to acceleration. Holdings has accounted for the acquisition utilizing the purchase method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations". The results of operations of Desktop Interactive, Inc. will be included in the consolidated results of operations of the Company beginning on September 1, 2007. The net purchase price, including acquisition costs paid, was allocated to assets acquired and liabilities assumed as follows:

Current assets (including cash of $82,260)	$	1,802,751
Property and equipment		63,197
Other assets		35,873
Goodwill		7,208,566
Other intangibles		1,390,000
Liabilities assumed		(1,882,593)
Deferred tax liability		(556,000)
Net purchase price	$	8,061,794

Prior to its acquisition, the Company's strategic evaluation of Desktop centered on Desktop's publisher relationships and its achievable reach, otherwise referred to as scale. Reach is defined in terms of the percentage of the domestic online population that can be reached through advertisements served by Desktop. As of September 30, 2007 as indicated by ComScore, the industry standard on which an ad network's reach in terms of advertising impressions delivered is measured, Desktop ranks eleventh nationally with a 47% reach. This level of reach/scale is critical to Desktop's ability to attract, retain and increase its advertising customer base and is the basis for recognizing $7,208,566 in goodwill as of September 30, 2007.

Intangible assets acquired include Customer Relationships and Developed Technology.

Unaudited pro forma results of operations data as if the Desktop Merger had occurred as of January 1, 2007 are as follows:

	For the three months ended September 30, 2007	For the nine months ended September 30, 2007
Pro forma revenues	$ 3,490,784	$ 6,399,393
Pro forma loss from operations	(1,315,497)	(1,190,013)
Pro forma net loss	(984,714)	(889,038)
Pro forma loss per share	(0.029)	(0.026)
Pro forma diluted loss per share	(0.029)	(0.026)

Pro forma data does not purport to be indicative of the results that would have been obtained had these events actually occurred at January 1, 2007, and is not intended to be a projection of future results.

Pursuant to the terms of the Desktop Merger, on October 5, 2007, $643,000 was paid as part of the Desktop earn-out and purchase price and goodwill was adjusted for purposes of applying purchase accounting under SFAS 141.

2. <u>Significant Accounting Policies</u>

Use of Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of our condensed consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our condensed consolidated financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular trans