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GENESISINTERMEDIA INC
Form 10-Q
November 19, 2001

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

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

For the transition period from _____ to _____

001-15029
(Commission file number)

GENESISINTERMEDIA, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

95-4710370
(IRS Employer
Identification No.)

5805 Sepulveda Boulevard, Van Nuys, CA 91411
(Address of principal executive offices)

(818) 902-4100
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last
report)

Indicate by check mark 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 (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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common
equity. As of November 16, 2001 - 24,062,303 shares of Common Stock

Transitional Small Business Disclosure Format (check one): Yes No

GENESISINTERMEDIA, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GENESISINTERMEDIA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2001 AND DECEMBER, 2000

	September 30 2001 (unaudited)	December 31, 2000 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 323,731	\$ 747,633

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Marketable securities at market	1,891,852	1,926,746
Accounts receivable, net	3,450,283	3,320,118
Inventories	784,258	1,383,620
Prepaid advertising	756,922	2,461,928
Advances receivable	-	1,201,348
Deposits and other prepaid assets	1,621,755	1,791,610
Net assets of discontinued operations	-	13,548,649
	-----	-----
Total current assets	8,828,801	26,381,652
Property and equipment, net	13,396,749	13,154,386
Customer lists	-	955,287
Other assets	523,032	145,533
	-----	-----
Total assets	\$ 22,748,582	\$ 40,636,858
	=====	=====

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GENESISINTERMEDIA, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
 AS OF SEPTEMBER 30, 2001 AND DECEMBER, 2000

	September 30, 2001 (unaudited)	December 31, 2001 (audited)
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Current portion of notes payable	\$ 182,678	\$ -
Current portion of capital lease obligations	-	72,408
Accounts payable	4,625,453	3,390,356
Accrued payroll taxes	525,020	859,833
Accrued interest - related party	111,629	2,053,490
Other accrued liabilities	1,026,918	731,201
Due to stockholder	662,567	2,693,993
Income taxes payable	65,000	65,000
Net liabilities of discontinued operations	10,244,064	-
	-----	-----
Total current liabilities	17,443,329	9,886,281
Notes payable, net of current portion	8,856,250	7,856,250
Note payable to related party	22,879,652	30,382,266
	-----	-----

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Total liabilities	49,179,231	48,104,797
Commitments and contingencies		
Stockholders' deficit		
Convertible preferred stock, \$0.001 par value, 5,000,000 authorized 0 and 71,429 shares issued and outstanding	-	71
Common stock, \$0.001 par value 75,000,000 shares authorized 24,062,303 and 20,971,560 shares issued and outstanding	24,062	20,972
Additional paid-in capital	153,190,337	35,752,544
Accumulated deficit	(177,242,565)	(41,827,177)
Treasury stock	(2,402,483)	(2,402,483)
Accumulated comprehensive income	-	988,134
	-----	-----
Total stockholders' deficit	(26,430,649)	(7,467,939)
	-----	-----
Total liabilities and stockholders' deficit	\$ 22,748,582	\$ 40,636,858
	=====	=====

See the accompanying notes

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GENESISINTERMEDIA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	3 Months Ended September 30, 2001 ----- (unaudited)	3 Months Ended September 30, 2000 ----- (unaudited)
Revenue	\$ 10,782,812	\$ 13,481,478
Cost of Revenue	2,250,771 -----	1,523,333 -----
Gross Profit	8,532,041	11,958,145
Operating expenses		
Selling, general and administrative expenses	17,814,258	11,417,482
Depreciation and amortization	314,458	619,550
Loss from operations of DynaMedia	-	127,721
	-----	-----

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Total operating expenses	18,128,716	12,164,753
Loss from operations	(9,596,675)	(206,608)
Other income (expenses)		
Loss on sale of assets	(3,216,348)	-
Interest expense	(1,146,702)	(883,314)
Financing costs	(89,374,221)	(50,000)
Total other income (expenses)	(93,737,271)	(933,314)
Loss from continuing operations before provision for income taxes	(103,333,946)	(1,139,922)
Provision (benefit) for income taxes	-	-
Loss from continuing operations	(103,333,946)	(1,139,922)
Discontinued operations		
Loss from operations of discontinued operations	(3,057,352)	(3,106,812)
Loss on disposal of discontinued operations	(13,351,041)	-
Total discontinued operations	(16,408,393)	(3,106,812)
Net loss	\$ (119,742,339)	\$ (4,246,734)
Basic and diluted loss per common share		
Continuing operations	\$ (4.45)	\$ (0.06)
Discontinued operations	(0.71)	(0.17)
	\$ (5.16)	\$ (0.23)
Weighted-average common shares outstanding	23,199,737	18,534,771

See the accompanying notes

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GENESISINTERMEDIA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

9 Months Ended September 30, 2001	9 Months Ended September 30, 2000
-----	-----
(unaudited)	(unaudited)

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Revenue	\$ 31,402,734	\$ 27,051,085
Cost of Revenue	5,393,531	5,243,233
Gross Profit	26,009,203	21,807,852
Operating expenses		
Selling, general and administrative expenses	38,382,078	27,076,042
Depreciation and amortization	1,509,249	1,813,135
Loss from operations of DynaMedia	-	58,360
Total operating expenses	39,891,327	28,947,537
Loss from operations	(13,882,124)	(7,139,685)
Other income (expenses)		
Loss on sale of assets	(3,038,403)	-
Interest expense	(3,604,363)	(1,958,343)
Financing costs	(91,097,472)	(153,125)
Total other income (expenses)	(97,740,238)	(2,111,468)
Loss from continuing operations before provision for income taxes	(111,622,362)	(9,251,153)
Provision (benefit) for income taxes	-	-
Loss from continuing operations	(111,622,362)	(9,251,153)
Discontinued operations		
Loss from operations of discontinued operations	(10,441,985)	(7,468,911)
Loss on disposal of discontinued operations	(13,351,041)	-
Total discontinued operations	(23,793,026)	(7,468,911)
Net loss	\$ (135,415,388)	\$ (16,720,064)
Basic and diluted loss per common share		
Continuing operations	\$ (5.07)	\$ (0.54)
Discontinued operations	(1.08)	(0.43)
	\$ (6.15)	\$ (0.97)
Weighted-average common shares outstanding	22,006,927	17,282,769

See the accompanying notes

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	9 Months Ended September 30, 2001	9 Months Ended September 30, 2000
	----- (unaudited)	----- (unaudited)
Cash flows from operating activities		
Net loss from continuing operation	\$ (111,622,362)	\$ (9,251,153)
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	1,509,249	1,813,135
Loss on sale of assets	3,038,403	-
Stock/warrants issued for financing costs	90,722,472	103,125
(Increase) decrease in operating assets	3,545,406	(5,767,480)
Increase (decrease) in operating liabilities	(745,860)	(2,282,222)
	-----	-----
Net cash used in operating activities	(13,552,692)	(15,384,595)
	-----	-----
Cash flows from investing activities		
Purchase of property and equipment	(796,325)	(806,027)
Proceeds from sale of marketable securities	1,116,557	-
Proceeds from sale of Car Rental Direct	11,600,000	-
Purchase of marketable securities	(5,108,200)	-
Other	(377,499)	(209,554)
	-----	-----
Net cash provided by (used in) investing activities	6,434,533	(1,015,581)
	-----	-----
Cash flows from financing activities		
Net proceeds from related parties	(2,031,426)	-
Net proceeds from line of credit	-	(1,505,406)
Proceeds from notes payable - related party	4,269,911	28,520,857
Proceeds from note payable	1,182,678	1,000,000
Proceeds from sale of stock, net	-	3,798,035
Proceeds from convertible debentures	3,000,000	-
Proceeds from exercise of options and warrants	10,003,694	887,701
Repurchase of common stock	-	(2,296,813)
Payments on notes payable - related party	(11,772,525)	-
Payment on notes payable and capital leases	(72,408)	(1,314,814)
Disgorgement of short-swing profits generated by stockholder	13,714,646	184,314
	-----	-----
Net cash provided by financing activities	18,294,570	29,273,874
	-----	-----
Cash used in discontinued operations	(11,600,313)	(12,013,665)
	-----	-----
Net increase (decrease) in cash and cash equivalents during period	(423,902)	860,033
Cash and cash equivalents, beginning of period	747,633	589,556
	-----	-----

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Cash and cash equivalents, end of period	\$	323,731	\$	1,449,589
		=====		=====

See the accompanying notes

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GENESISINTERMEDIA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared by GenesisIntermedia, Inc. (the "Company" or "Genesis"), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The results of the nine months ended September 30, 2001 are not necessarily indicative of the results to be expected for the full year ending December 31, 2001. These financial statements should be read in conjunction with the Company's consolidated audited financial statements and related footnotes for the year ended December 31, 2000 included in the Company's annual report on Form 10-K.

NOTE 2 - NASDAQ INQUIRY AND SEC INVESTIGATION

On May 24, 2001, the Nasdaq Stock Market opened an inquiry into whether to disqualify the Company's stock from quotation based on certain matters relating to the Company, Ramy El-Batrawi, and trading of the Company's securities. On September 25, 2001, the Nasdaq Stock Market suspended trading in the Company's stock. In addition, on August 10, 2001, the SEC commenced a formal investigation into whether certain persons or entities employed schemes to conceal payments from the Company to stock promoters, materially misstated or caused the material misstatement of the Company's assets and liabilities, and illegally manipulated the Company's stock price. Finally, the FBI interviewed two of the Company's former employees in connection with related matters. These two employees were not employed by the Company at the time of the interview. The Company is cooperating fully with the Nasdaq Stock Market, SEC, and FBI inquiries. The Company can provide no assurance that the Nasdaq Stock Market will lift the suspension on trading of the Company's stock, and the Nasdaq Stock Market may decide to permanently disqualify the Company's stock from quotation. The Company can also provide no assurance that the SEC, or other law enforcement authority, will not bring a legal proceeding against the Company that could lead to financial penalties and other forms of relief. Continued suspension of trading in the Company's stock, disqualification of the Company's stock from quotation, or a successful enforcement proceeding against the Company, is likely to seriously reduce the price and impair the liquidity of the Company's common stock, and to harm the Company's business by making it difficult or impossible to raise new capital through the sale of securities.

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GENESISINTERMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 3 - LITIGATION

On October 31, 2001, a lawsuit claiming to be brought derivatively on the Company's behalf was filed by Joseph Touchstone in the Court of Chancery for the State of Delaware in and for New Castle County against the Company, and certain individuals, including Ramy El-Batrawi, Douglas E. Jacobson, George W. Heyworth, Michael R. Fugler and Stephen A. Weber, all current or former senior executive officers and directors of the Company. The complaint alleges a breach of fiduciary duties for insider trading and misappropriation of corporate information against those defendants who sold the Company's securities. This count alleges that the selling defendants knew or had reason to know of a scheme to artificially inflate the price of the Company's shares, taking advantage of material non-public information to gain profits in violation of their fiduciary duties to the Company. The complaint also alleges against all individual defendants for breaching their duties of good faith and loyalty. This count alleges that these individuals, who are current and former officers and directors of the Company, breached their duty of good faith and loyalty to the Company by allegedly approving or acquiescing in a scheme to artificially inflate the price of the Company's common stock. The Company intends to vigorously defend itself against the aforementioned suit. However, an adverse outcome in this litigation could materially harm the Company.

Following the announcement of the Nasdaq and SEC inquiries, several persons claiming to be the Company's shareholders commenced securities fraud class actions against the Company and individuals, including current and former senior executive officers and directors. On October 18, 2001, one such class action was filed in the United States District Court for the Central District of California by David Osher, who claims to be a shareholder of record and be acting on behalf of others similarly situated, against the Company, Ramy El-Batrawi, Douglas E. Jacobson and Courtney Smith. The first count of the complaint alleges violations under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the making of false and misleading statements and failing to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. This count also alleges that the Company, the Company's former Chief Executive Officer and Chairman of the Board of Directors Ramy El-Batrawi, the Company's Chief Financial Officer Douglas E. Jacobson, and stock market analyst Courtney Smith acted in a fraudulent scheme to artificially inflate the price of our common stock. The second count alleges that both the Company and the individual defendants named above, which includes former senior executive officers and directors, caused the Company to engage in wrongful conduct in violation of Section 20(a) of the Exchange Act. The Company intends to vigorously defend against Mr. Osher's class action claim. However, an adverse outcome in this litigation could materially harm the Company.

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GENESISINTERMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 3 - LITIGATION, continued

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On October 19, 2001, another class action suit was filed in the United States District Court for the Central District of California Western Division by William Tierno, Jr., who claims to be a shareholder of record and acting on behalf of others similarly situated, against the Company, Ramy El-Batrawi, Douglas E. Jacobson and Courtney Smith. The first count of the complaint alleges violations under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the making of false and misleading statements and failing to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. This count also alleges that the Company, the Company's former Chief Executive Officer and Chairman of the Board of Directors Ramy El-Batrawi, the Company's Chief Financial Officer Douglas E. Jacobson, and stock market analyst Courtney Smith acted in a fraudulent scheme to artificially inflate the price of the Company's common stock. The second count alleges that both the Company and the individual defendants named above, which includes former senior executive officers and directors, caused the Company to engage in wrongful conduct in violation of Section 20(a) of the Exchange Act. The Company intends to vigorously defend against Mr. Tierno's class action claim; however, an adverse outcome in this litigation could materially harm the Company.

On October 23, 2001, another such class action lawsuit was filed in the United States District Court for the Central District of California by Jason Spiller, who claims to be a shareholder of record and be acting on behalf of others similarly situated, against the Company, Ramy El-Batrawi and Douglas E. Jacobson. The complaint alleges violations under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the making of false and misleading statements and failing to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. This count also alleges that the Company, the Company's former Chief Executive Officer and Chairman of the Board of Directors Ramy El-Batrawi, and the Company's Chief Financial Officer Douglas E. Jacobson acted in a fraudulent scheme to artificially inflate the price of the Company's common stock. In the second count Mr. Spiller's suit alleges that both the Company and the individual defendants named above, which includes former senior executive officers and directors, engaged in wrongful conduct in violation of Section 20(a) of the Exchange Act. The Company intends to vigorously defend against Mr. Spiller's class action claim; however, an adverse outcome in this litigation could materially harm the Company.

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GENESISINTERMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 3 - LITIGATION, continued

On October 25, 2001, another such class action was filed in the United States District Court for the Central District of California by James H. Coltrain, Jr., who claims to be a shareholder of record and be acting on behalf of others similarly situated, against the Company, Ramy El-Batrawi, Douglas E. Jacobson, Courtney Smith, Orbitex Management, Inc., Orbitex Global, Courtney Smith & Company, Ultimate Holdings, Ltd. and Adnan Khashoggi. The complaint alleges violations under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the making of false and misleading statements and failing to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. This count also alleges that the Company, the Company's former Chief Executive Officer and Chairman of the Board of Directors Ramy El-Batrawi, the Company's Chief Financial Officer Douglas E. Jacobson, stock market analyst Courtney Smith,

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Orbitex Management, Inc., Orbitex Global, Courtney Smith & Company, Ultimate Holding, Inc. and Adnan Khashoggi acted in a fraudulent scheme to artificially inflate the price of the Company's common stock. In the second count Mr. Coltrain's suit alleges that both the Company and the individual defendants named above, which includes former senior executive officers and directors, engaged in wrongful conduct in violation of Section 20(a) of the Exchange Act. The Company intends to vigorously defend against Mr. Coltrain's class action claim; however, an adverse outcome in this litigation could materially harm the Company.

On October 25, 2001, another such class action was filed in the United States District Court for the Central District of California by Suri Fingerer, who claims to be a shareholder of record and be acting on behalf of others similarly situated, against the Company, Ramy El-Batrawi, Douglas E. Jacobson and Courtney Smith. The first count of the complaint alleges violations under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the making of false and misleading statements and failing to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. This count also alleges that the Company, the Company's former Chief Executive Officer and Chairman of the Board of Directors Ramy El-Batrawi, the Company's Chief Financial Officer Douglas E. Jacobson, and stock market analyst Courtney Smith acted in a fraudulent scheme to artificially inflate the price of the Company's common stock. The second count alleges that both the Company and the individual defendants named above, which includes former senior executive officers and directors, engaged in wrongful conduct in violation of Section 20(a) of the Exchange Act. The Company intends to vigorously defend against Mr. Fingerer's class action claim; however, an adverse outcome in this litigation could materially harm the Company.

The Company has not been served notice of additional lawsuits arising from the same subject matter as the class action lawsuits discussed above, and to the Company's knowledge no such lawsuits exist, but it is possible other such lawsuits may have been filed without our knowledge.

The Company cannot predict the ultimate outcome of the lawsuits and investigations discussed above. Director and officer liability insurance against certain liabilities, including liabilities under the securities laws, was in force at the time the securities and derivative litigation was commenced. The Company has not established any reserve for possible losses resulting from the claims asserted in the securities and derivative litigation. The Company believes that its liability insurance covers the claims asserted in the securities and derivative litigation and that the Company may be able to resolve those claims within the limits of its coverage. Because the insurers have denied coverage for these claims, the Company recently commenced a lawsuit against them. The Company intends to vigorously pursue the claim for its coverage rights. However, an adverse outcome in this litigation could materially harm the Company.

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GENESISINTERMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 4 - DISCONTINUED OPERATIONS

In August 2001, the Company sold its Car Rental Direct subsidiary for \$10,600,000 resulting in a gain on the sale of \$5,498,382. The initial purchase price was \$11,600,000 which was paid to the Company in cash at closing and was subsequently reduced by \$1,000,000. As repayment of the \$1,000,000 reduction in the purchase price, the Company issued the buyer a promissory note in the amount

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of \$1,000,000. The note accrues interest at 6% per annum and principal payments of \$500,000 plus unpaid accrued interest are due on November 1, 2002 and May 1, 2003. For the nine months ended September 30, 2000 and the period from January 1, 2001 to August 16, 2001, Car Rental Direct incurred losses from its operations of \$1,350,745 and \$3,221,649. The operations of Car Rental Direct are presented as a discontinued operation in the accompanying financial statements.

In September 2001, the Company decided to close its Centerling operations and liquidate all its assets. As a result of closing the Centerling operations, the Company has recognized a loss of \$18,849,423 to sell all the Centerling assets and close down the operations. For the nine months ended September 30, 2000 and 2001, Centerling incurred losses from its operations of \$6,118,166 and \$7,220,336. The operations of Centerling are presented as a discontinued operation in the accompanying financial statements.

The results of operations and cash flows for 2000 and the balance sheet as of December 31, 2000 presented in these financial statements have been restated to give effect to the discontinued operations described above.

NOTE 5 - EARNINGS PER SHARE

In 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Basic earnings per share is computed using the weighted-average number of common shares outstanding during the period. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. The following potential common shares have been excluded from the computation of diluted net loss per share for all periods presented because the effect would have been anti-dilutive:

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GENESISINTERMEDIA, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 5 - EARNINGS PER SHARE, Continued

	For the nine months Ended September 30,	
	2001	2000
	(unaudited)	(unaudited)
Options outstanding under the Company's stock option plan	3,675,352	1,330,536
Options issued as part of the acquisition of Vision Digital	150,000	150,000
Warrants issued in conjunction with common stock	750,000	750,000
Warrants issued in conjunction with Series A convertible preferred stock	214,284	764,571

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Warrants issued in conjunction with notes payable	64,287	726,963
Warrants issued in conjunction with Note payable to affiliate	209,585	491,250
Warrants issued in conjunction with convertible debentures	-	67,500
Warrants issued as liquidating damages	150,000	-
Warrants issued as consideration for leasing space	600,000	-
Series A Convertible Preferred Stock	214,287	756,990
Warrants issued as consideration for future financing (1)	4,000,000	-

(1) The 4,000,000 shares do not reflect the concurrent issuance of the 3,000,000 offsetting options to be issued to the Company by two stockholders, upon the exercise of the warrants, which should result in only 1,000,000 new shares to be issued by the Company.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2001 consisted of the following:

Land		\$ 1,450,000
Building and improvements		13,089,375
Vehicles		113,269
Furniture and equipment		250,054

		14,902,698
Less accumulated depreciation		(1,505,949)

Total		\$ 13,396,749
		=====

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GENESISINTERMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 7 - CONVERTIBLE DEBENTURE

On March 14, 2001, the Company entered into a Securities Purchase Agreement whereby the Company issued a 7% convertible debenture in the amount of \$3,000,000. The debenture was convertible into the Company's common stock at a conversion price of \$6.83 and was to be repaid either in cash or by conversion to common stock as follows: \$1,000,000 on each of April 15, May 15 and June 15, 2001, subject in the case of cash repayment to the effectiveness of a registration statement covering resale of the shares. In addition, the Company issued 300,000 warrants to purchase the Company's common stock at \$7.67 per share that expire on March 15, 2004. The Company has recognized an expense of \$1,623,251 related to these warrants during the nine months ended September 30, 2001.

On June 4, 2001, the debenture holder converted the \$3,000,000 debenture into 445,534 shares of the Company's common stock and exercised 300,000 warrants which resulted in gross proceeds to the Company of \$2,300,000.

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NOTE 8 - NOTE PAYABLE - RELATED PARTY

On January 5, 2001, the Company entered into a note payable agreement with Ultimate Holdings, Ltd ("Ultimate"), a significant stockholder of the Company, whereby Ultimate has agreed to loan the Company an additional \$5,000,000 on terms similar to the previous note payable agreements with Ultimate.

On April 16, 2001, the Company entered into another note payable agreement with Ultimate whereby Ultimate has agreed to loan the Company an additional \$15,000,000 on terms similar to the previous note payable agreements with Ultimate.

NOTE 9 - STOCKHOLDERS' DEFICIT

On March 22, 2001 the Company affected a 3-for-1 stock split of its common stock. All share and per share data have been retroactively restated to reflect this stock split. On September 5, 2001, the Company's board of directors approved another 3-for-1 stock split to take effect on September 24, 2001. The Company postponed this stock split on September 19, 2001.

In January 2001, warrants to purchase 64,287 shares of the Company's common stock, issued in conjunction with the Series A Convertible Preferred Stock, were exercised for proceeds of \$218,576.

During the nine months ended September 30, 2001, the Company received \$1,012,053 and \$8,991,641 from the exercise of 299,888 employee stock options and 1,834,749 warrants, respectively. The Company also received \$13,714,646 from Ultimate who disgorged to the Company "short-swing" profits in such amount.

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GENESISINTERMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 9 - STOCKHOLDERS' EQUITY, continued

In June 2000, the Company issued a warrant to purchase 20 shares of the common stock of the Company's CENTERLINQ, Inc. subsidiary at an exercise price of \$250,000 per share. The subsidiary warrant vested immediately and was issued pursuant to a securities purchase agreement as an incentive for Infinity Outdoor to maximize its joint marketing efforts with the Company. At any time during the term of the subsidiary warrant, if the Company has not completed a public offering under an effective registration statement for the sale of shares of common stock of CENTERLINQ, Inc. for at least \$20,000,000, Infinity Outdoor has the option to tender the subsidiary warrant in exchange for a warrant to purchase 967,740 shares of the Company's common stock at an exercise price of \$5.17 per share. In July 2001, Infinity Outdoor tendered its subsidiary warrant for a warrant to purchase 967,740 shares of the Company's common stock at \$5.17 per share and exercised this warrant resulting in net proceeds to the Company of \$4,999,990.

On July 2, 2001, the Company entered into a conditional loan commitment letter with Riverdale LLC ("Riverdale"), a company owned by Carl C. Icahn, the New York-based financier, for a \$100 million credit facility. In connection with the loan commitment, on July 2, 2001 the Company issued to Riverdale warrants to purchase an aggregate of 4 million shares of the Company's common stock at exercise prices ranging from \$2 to \$9 per share and granted to Riverdale registration rights with respect to the common stock issuable upon exercise of the warrants. The warrants are exercisable any time after July 2, 2001 and

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before July 1, 2005. Concurrently with the issuance of the warrants by the Company, the Company's former CEO granted Riverdale an option to purchase 1.0 million and 500,000 shares of common stock held by him, at purchase prices of \$2.00 and \$4.00 per share, respectively. In a related transaction, to reduce the dilutive effect on existing stockholders of the exercise of the warrants, the Company's former CEO and Ultimate granted options to the Company to acquire 3.0 million shares of common stock at exercise prices of \$2.00 and \$9.00 per share. These options are exercisable if Riverdale exercises the corresponding series of warrants issued by the Company. If Riverdale exercises all of the warrants issued by the Company and the Company exercises all of the options issued to it, the Company will issue a net of 1.0 million shares at \$2.00 per share. In the transaction, Riverdale agreed to lock-up their shares acquirable upon exercise of the warrants and options for a period of one-year and the Company's former CEO and Ultimate agreed to lock-up the shares presently held by them for the same one-year period, and not to sell them without consent of the other parties, subject to certain permissible resales to institutions and to certain non-institutional purchasers who agree to lock-up their shares. The Company's former CEO has reported sales of some of his shares of common stock since July 2, 2001. The Company is not aware whether these sales were made pursuant to an exception to the lock-up agreement or the waiver or consent of the other parties to the lock-up agreement. The Company is also not aware whether the lock-up agreement remains in force and in effect among the parties regarding future sales.

The Company used the Black Scholes model to determined the fair value of the 4 million warrants issued by the Company to Riverdale and the 1.5 million warrants issued by the Company's former CEO to Riverdale and has taken a charge of \$89,099,221 in the accompanying statement of operations.

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GENESISINTERMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 10 - MARKETABLE SECURITIES

Marketable securities at September 30, 2001 consist of equity securities in MAII Holdings, Inc. The Company has classified this investment in marketable securities as trading. For the three months ended September 30, 2001, the Company recognized an unrealized loss in the accompanying statement of operations of \$3,216,348.

NOTE 11 - RECENTLY ISSUED ACCOUNTING PRONCEMENTS

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." This statement addresses financial accounting and reporting for business combinations and supersedes Accounting Principles Bulletin ("APB") Opinion No. 16, "Business Combinations," and SFAS No. 38, "Accounting for Pre-Acquisition Contingencies of Purchased Enterprises." All business combinations in the scope of this statement are to be accounted for using one method, the purchase method. The provisions of this statement apply to all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method for those business combinations is prohibited. This statement also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible

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Assets." This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. It is effective for fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been issued previously.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or the normal operation of long-lived assets, except for certain obligations of lessees. This statement is not applicable to the Company.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business, and amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The Company does not expect adoption of SFAS No. 144 to have a material impact, if any, on its financial position or results of operations.

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GENESISINTERMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 12 - SEGMENT INFORMATION

The Company has two business units that have separate management and reporting infrastructures that offer different products and services. The business units have been aggregated into two reportable segments: Media and Properties. The Media group conducts direct response advertising campaigns and buys media time and either sells it to third parties or uses it to market its own products. The Properties group maintains the Company's building and generates revenue from the building's tenants. Most corporate expenses, such as internal administrative costs, legal expenses, and debt issuance costs, are included in the Media group.

The Company evaluates the performance of its operating segments based on income from operations, before income taxes, accounting changes, non-recurring items, and interest income and expense.

Summarized financial information concerning the Company's reportable segments is shown in the following table as of and for the nine months ended September 30, 2001:

Loss from

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	Revenue	Continuing Operations	Total Assets
	-----	-----	-----
Media	\$ 30,903,844	\$(110,551,783)	\$ 10,427,365
Properties	498,890	(1,070,579)	12,321,217
	-----	-----	-----
Total	\$ 31,402,734	\$(111,622,362)	\$ 22,748,582
	=====	=====	=====

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

General

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related footnotes for the year ended December 31, 2000 included in our Annual Report on Form 10-K. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

Overview

During the quarter ended September 30, 2001 and from that date until the filing of this report on Form 10-Q, we have experienced significant changes and events that may have a significant negative impact on our business. These changes and events include:

- o the Nasdaq halting the trading of our stock;
- o the resignation of our Chief Executive Officer and the appointment of an interim Chief Executive Officer;
- o the filing of several class action lawsuits against us;
- o the commencement of an SEC investigation;
- o the disposal of our Centerling operations; and
- o the sale of our Car Rental Direct subsidiary

We are currently taking steps to address the above events, but there can be no assurance that we will be successful in commencing the trading of our stock, resolving the class action lawsuits and SEC investigation brought against us, and generating sufficient cash to continue our business.

In August 2001, we sold our Car Rental Direct subsidiary for \$10,600,000 resulting in a gain on the sale of \$5,498,382. The initial purchase price was \$11,600,000 which was paid to us in cash at closing and was subsequently reduced by \$1,000,000. As repayment of the \$1,000,000 purchase price we issued the buyer a promissory note in the amount of \$1,000,000. The note accrues interest at 6% per annum and principal payments of \$500,000 are due on November 1, 2002 and May 1, 2003. For the nine months ended September 30, 2000 and the period from January 1, 2001 to August 16, 2001, Car Rental Direct incurred losses from its operations of \$1,350,745 and \$3,221,649. The operations of Car Rental Direct are presented as a discontinued operation.

In September 2001, we decided to close our Centerling operations and liquidate all its assets. As a result of closing the Centerling operations, we have recognized a loss of \$18,849,423 to sell all the Centerling assets and close

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down the operations. For the nine months ended September 30, 2000 and 2001, Centerling incurred losses from its operations of \$6,118,166 and \$7,220,336. The operations of Centerling are presented as a discontinued operation.

The results of operations and cash flows for 2000 and the balance sheet at of December 31, 2000 presented in these financial statements included in this report on Form 10-Q have been restated to give effect to the discontinued operations described above.

On May 24, 2001, the Nasdaq Stock Market opened an inquiry into whether to disqualify our stock from quotation based on certain matters relating to us, Ramy El-Batrawi, and trading of our securities. On September 25, 2001, the Nasdaq Stock Market suspended trading in our stock. In addition, on August 10, 2001, the SEC commenced a formal investigation into whether certain

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persons or entities employed schemes to conceal payments from us to stock promoters, materially misstated or caused the material misstatement of our assets and liabilities, and illegally manipulated our stock price. Finally, the FBI interviewed two of our former employees in connection with related matters. These two employees were not employed by us at the time of the interview. We are cooperating fully with the Nasdaq Stock Market, SEC, and FBI inquiries. We can provide no assurance that the Nasdaq Stock Market will lift the suspension on trading of our stock, and the Nasdaq Stock Market may decide to permanently disqualify our stock from quotation. We can also provide no assurance that the SEC, or other law enforcement authority, will not bring a legal proceeding against us that could lead to financial penalties and other forms of relief. Continued suspension of trading in our stock, disqualification of our stock from quotation, or a successful enforcement proceeding against us, is likely to seriously reduce the price and impair the liquidity of our common stock, and to harm our business by making it difficult or impossible to raise new capital through the sale of securities.

In addition, several class action lawsuits have been filed against us. See Part II, Item 1, Legal Proceedings.

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Results of Operations

Three months Ended September 30, 2001 vs. September 30, 2000

	Three Months Ended 9/30/2001	Three Months Ended 9/30/2000	% of revenue 2001	% of revenue 2000
Revenue	\$ 10,783	13,481	100.0%	100.0%

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Cost of Revenue	2,251	1,523	20.9%	11.3%
Gross Profit	8,532	11,958	79.1%	88.7%
Operating expenses				
Selling, general and administrative expenses	17,815	11,418	65.2%	84.7%
Depreciation and amortization	314	619	2.9%	4.6%
Loss from operations of DynaMedia	-	128	0.0%	0.9%
Total operating expenses	18,129	12,165	168.1%	90.2%
Loss from operations	(9,597)	(207)	-89.0%	-1.5%
Other income (expenses)				
Other income (expense)	(3,217)	-	-29.8%	0.0%
Interest expense	(1,146)	(883)	-10.6%	-6.5%
Financing costs	(89,374)	(50)	-828.8%	-0.4%
Total other income (expenses)	(93,737)	(933)	-869.3%	-6.9%
Loss from continuing operations before provision for income taxes	(103,334)	(1,140)	-958.3%	-8.5%
Provision (benefit) for income taxes	-	-	0.0%	0.0%
Loss from continuing operations	(103,334)	(1,140)	-958.3%	-8.5%
Discontinued operations				
Loss from operations of discontinued operations	(3,057)	(3,107)	-28.4%	-23.0%
Loss on disposal of discontinued operations	(13,351)	-	-123.8%	0.0%
Total discontinued operations	(16,408)	(3,107)	-152.2%	-23.0%
Net loss	\$(119,742)	\$(4,247)	-1110.5%	-31.5%

Revenue for the three months ended September 30, 2001 decreased by \$2,698,000 or 20.0% from \$13,481,000 for the three months ended September 30, 2000 to \$10,783,000 for the same period in 2001. The decrease in revenue was due to the following:

- o Product sales for the three months ended September 30, 2001 decreased by \$2,189,000 or 22.6% from \$9,680,000 for the three months ended September 30, 2000 to \$7,491,000 for the same period in 2001. The decrease is due to the negative impact of the events surrounding September 11, 2001 and uncertainty of consumers to purchase our products.

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- o Commissions and royalties for the three months ended September 30, 2001 decreased by \$141,000 or 4.3% from \$3,306,000 for the three months ended September 30, 2000 to \$3,165,000 for the same period in 2001. These commissions are amounts received from the sale of other companies' products primarily through our call center in St. George, Utah. We normally receive commissions of 20% to 50%. The decrease is due to the negative impact of the events surrounding September 11, 2001 and uncertainty of consumers to purchase the products we sell for others.

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Cost of revenue for the three months ended September 30, 2001 increased by \$728,000 or 47.8% from \$1,523,000 for the three months ended September 30, 2000 to \$2,251,000 for the same period in 2001. The direct product costs as a percentage of product sales increased from 9.1% for the three months ended September 30, 2000 to 26.6% for the same period in 2001. The increase is due to higher product costs associated with our new products and programs when compared to the products sold by us during 2000.

Selling, general and administrative expenses for the three months ended September 30, 2001 increased by \$6,397,000 or 56.0% from \$11,418,000 for the three months ended September 30, 2000 to \$17,815,000 for the same period in 2001. The increase was due principally to an increase in payroll and related benefits in our St. George, Utah location, higher commissions paid to employees of our media division, higher legal and professional fees and much higher media costs. We expensed \$6,389,291 in media airtime during the three months ended September 30, 2001 compared to \$2,005,000 for the same period in 2000.

Depreciation and amortization expense for the three months ended September 30, 2001 decreased by \$305,000 or 49.3% from \$619,000 for the three months ended September 30, 2000 to \$314,000 for the same period in 2001. The decrease in depreciation and amortization expense was a result of the customer lists being fully amortized at June 30, 2001 resulting in no expense for the three months ended September 30, 2001.

Effective January 1, 2000 we acquired DynaMedia and effective December 31, 2000, we sold DynaMedia back to its original owner. For the three months ended September 30, 2000, DynaMedia reported a net loss of \$128,000 on revenues of \$311,000.

Other expense for the three months ended September 30, 2001 increased by \$3,217,000 from \$0 for the three months ended September 30, 2000 to \$3,217,000 for the same period in 2001. Other expense is the writedown we took on our investments in common stock in MAII Holdings, Inc.

Interest expense for the three months ended September 30, 2001 increased by \$263,000 or 29.8% from \$883,000 for the three months ended September 30, 2000 to \$1,146,000 for the same period in 2001. The increase in interest expense was due to an increase in notes payable to a related party.

Financing costs for the three months ended September 30, 2001 increased by \$89,324,000 from \$50,000 for the three months ended September 30, 2000 to \$89,374,000 for the same period in 2001. The financing cost for the three months ended September 30, 2001 related to the fair value of warrants issued in connection with a proposal to offer financing to us for future acquisitions. There were no such financing costs for the three months ended September 30, 2000.

Loss from operations of discontinued operations for the three months ended September 30, 2001 consists of operating losses of Car Rental Direct and Centerling of \$649,739 and \$2,407,613, respectively, compared to operating losses of \$820,200 and \$2,286,612, respectively for the three months ended September 30, 2000.

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Loss on disposal of discontinued operations consists of a gain of \$5,498,382 from the sale of Car Rental Direct and a loss on the closure of Centerling of \$18,849,423. Included in the loss on the closure of Centerling, are the estimated costs over the next six months that will be required to fully liquidate the Centerling assets and close the operations.

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Nine months Ended September 30, 2001 vs. September 30, 2000

	Nine Months Ended 9/30/2001 (in thousands)	Nine Months Ended 9/30/2000	% of revenue 2001	% of revenue 2000
Revenue	\$ 31,403	\$ 27,051	100.0%	100.0%
Cost of Revenue	5,394	5,243	17.2%	19.4%
Gross Profit	26,009	21,808	82.8%	80.6%
Operating expenses				
Selling, general and administrative expenses	38,382	27,076	122.2%	100.1%
Depreciation and amortization	1,509	1,813	4.8%	6.7%
Loss from operations of DynaMedia		59	0.0%	0.2%
Total operating expenses	39,891	28,948	127.0%	107.0%
Loss from operations	(13,882)	(7,140)	-44.2%	-26.4%
Other income (expenses)				
Other income (expense)	(3,039)		-9.7%	0.0%
Interest expense	(3,604)	(1,958)	-11.5%	-7.2%
Financing costs	(91,097)	(153)	-290.1%	-0.6%
Total other income (expenses)	(97,740)	(2,111)	-311.2%	-7.8%
Loss from continuing operations before provision for income taxes	(111,622)	(9,251)	-355.5%	-34.2%
Provision (benefit) for income taxes	-	-	0.0%	0.0%
Loss from continuing operations	(111,622)	(9,251)	-355.5%	-34.2%
Discontinued operations				
Loss from operations of discontinued operations	(10,442)	(7,469)	-33.3%	-27.6%
Loss on disposal of discontinued operations	(13,351)	-	-42.5%	0.0%
Total discontinued operations	(23,793)	(7,469)	-75.8%	-27.6%
Net loss	\$ (135,415)	\$ (16,720)	-431.2%	-61.8%

Revenue for the nine months ended September 30, 2001 increased by \$4,352,000 or 16.1% from \$27,051,000 for the nine months ended September 30, 2000 to \$31,403,000 for the same period in 2001. The increase in revenue was due to the following:

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- o Commissions and royalties for the nine months ended September 30, 2001 increased by \$5,741,000 or 107.2% from \$5,356,000 for the nine months ended September 30, 2000 to \$11,097,000 for the same period in 2001. These commissions are amounts received from the sale of other companies' products primarily through our call center in St. George, Utah. We normally receive commissions of 20% to 50%. The increase occurred in the first half of 2001 and is due to the expansion of our staff in our St. George, Utah location and obtaining new contracts to sell other companies' products. Commissions and royalties actually decreased during the three months ended September 30, 2001 due to the negative impact of the events surrounding September 11, 2001 and uncertainty of consumers to purchase the products we sell for others.

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- o Product sales for the nine months ended September 30, 2001 decreased by \$303,000 or 1.5% from \$20,077,000 for the nine months ended September 30, 2000 to \$19,774,000 for the same period in 2001. Product sales for the first half of 2001 increase by 18% over the first half of 2000, but a decrease in product sales took place in during the three months ended September 30, 2001 and is principally due to the negative impact of the events surrounding September 11, 2001 and uncertainty of consumers to purchase our products.

Cost of revenue for the nine months ended September 30, 2001 increased by \$151,000 or 2.9% from \$5,243,000 for the nine months ended September 30, 2000 to \$5,394,000 for the same period in 2001. The direct product costs as a percentage of product sales increased from 17.4% for the nine months ended September 30, 2000 to 23.0% for the same period in 2001. The increase is due to higher product costs associated with our new products and programs when compared to the products sold by us during 2000.

Selling, general and administrative expenses for the nine months ended September 30, 2001 increased by \$11,306,000 or 41.8% from \$27,076,000 for the nine months ended September 30, 2000 to \$38,382,000 for the same period in 2001. The increase was due principally to an increase in payroll and related benefits in our St. George, Utah location, higher commissions paid to employees of our media division, higher legal and professional fees and much higher media costs. We expensed \$12,394,291 in media airtime during the nine months ended September 30, 2001 compared to \$7,975,000 for the same period in 2000.

Depreciation and amortization expense for the nine months ended September 30, 2001 decreased by \$304,000 or 16.8% from \$1,813,000 for the nine months ended September 30, 2000 to \$1,509,000 for the same period in 2001. The decrease in depreciation and amortization expense was the result of the customer lists being fully amortized at June 30, 2001 resulting in amortization expense for only six months in 2001 compared to nine months in 2000.

Effective January 1, 2000 we acquired DynaMedia and effective December 31, 2000, we sold DynaMedia back to its original owner. For the nine months ended September 30, 2000, DynaMedia reported a net loss of \$59,000 on revenues of \$1,044,000.

Other expense for the nine months ended September 30, 2001 increased by \$3,039,000 from \$0 for the nine months ended September 30, 2000 to \$3,039,000 for the same period in 2001. Other expense is the writedown we took on our investments in common stock of MAII Holdings, Inc. and a realized gain of \$177,000 on a sales of our investment in Fashionmall.com, Inc. in the first quarter of 2001.

Interest expense for the nine months ended September 30, 2001 increased by

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\$1,646,000 or 84.1% from \$1,958,000 for the nine months ended September 30, 2000 to \$3,604,000 for the same period in 2001. The increase in interest expense was due to an increase in notes payable to a related party.

Financing costs for the nine months ended September 30, 2001 increased by \$90,944,000 from \$153,000 for the nine months ended September 30, 2000 to \$91,097,000 for the same period in 2001. The financing cost for the nine months ended September 30, 2001 related to the fair value of warrants issued in connection with a convertible debenture and warrants issued in connection with a proposal to offer financing to us for future acquisitions.

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Loss from operations of discontinued operations for the nine months ended September 30, 2001 consists of operating losses of Car Rental Direct and Centerling of \$3,221,649 and \$7,220,336, respectively, compared to operating losses of \$1,350,745 and \$6,118,166, respectively.

Loss on disposal of discontinued operations consists of a gain of \$5,498,382 from the sale of Car Rental Direct and a loss on the closure of Centerling of \$18,849,423. Included in the loss on the closure of Centerling, are the estimated costs over the next six months that will be required to fully liquidate the Centerling assets and close the operations.

Liquidity and capital resources

We financed our operations initially from cash generated from operations. More recently, we have financed our operations through the sale of common and preferred stock in private placement offerings, sale of common stock in our initial public offering, a long-term mortgage, a line of credit, and borrowings.

From November 1999 we borrowed money from Ultimate through the issuance of debentures. As of September 30, 2001, the balance due to Ultimate was \$21,155,023. Ultimate is a significant stockholder. In connection with the debenture issued in November 1999, we issued warrants to purchase 2,100,000 shares of common stock with an exercise price of \$2.33. The warrant for 2,100,000 was exercised in August 2000. The exercise price for these warrants of \$4,900,000 was paid via a reduction of the debenture.

In February 2000, we issued a convertible debenture in the amount of \$1,000,000 along with a warrant to purchase 67,500 shares of common stock at an exercise price of \$4.00 and the issuance of 45,000 shares of our common stock. The debenture is convertible into common stock at \$1.67 per share if it is held to maturity. The debenture was due on April 7, 2000 and has been repaid. We took a charge to earnings for the 45,000 common shares issued in connection with this debenture in the amount of \$103,125. In April 2001, the 67,500 warrants were exercised resulting in gross proceeds to us of \$270,000.

On March 14, 2001, we entered into a Securities Purchase Agreement under which we issued 7% convertible debentures in the amount of \$3,000,000. The debenture was convertible into our common stock at a conversion price of \$6.83 and was to be repaid either in cash or by conversion to common stock as follows: \$1,000,000 on each of April 15, May 15 and June 15, 2001, subject in the case of cash repayment to the effectiveness of a registration statement covering resale of the shares. In addition, we issued warrants to purchase 300,000 shares of our common stock at \$7.67 per share that expire on March 15, 2004. On June 4, 2001, the debenture holder converted the \$3,000,000 debenture into 445,534 shares of the Company's common stock and exercised 300,000 warrants which resulted in gross proceeds to the Company of \$2,300,000.

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On January 5, 2001 and April 16, 2001, we entered into additional note payable agreements with Ultimate whereby Ultimate has agreed to loan us an additional \$5,000,000 and \$15,000,000, respectively, on terms similar to the previous note payable agreements with Ultimate.

On July 2, 2001, we entered into a conditional loan commitment letter with Riverdale LLC, a company owned by Carl C. Icahn, the New York-based financier, for a \$100 million credit facility. The credit facility will be used to make strategic acquisitions that fit into our business model and that are approved by Riverdale. In connection with the loan commitment, on July 2, 2001 we issued to Riverdale warrants to purchase an aggregate of 4 million shares of our common stock at exercise prices ranging from \$2 to \$9 per share and granted to Riverdale registration rights with respect to the common stock issuable upon exercise of the warrants. The warrants are exercisable any time after July 2, 2001 and before July 1, 2005. Concurrently with the issuance of the warrants by us, our former CEO granted Riverdale options to purchase 1.0 million and 500,000 shares of common stock held by him, at purchase prices of \$2.00 and \$4.00 per share, respectively. In a related transaction, to reduce the dilutive effect on existing stockholders of the exercise of the warrants, our former CEO and Ultimate granted options to us to acquire 3.0 million shares of common stock at exercise prices of \$2.00 and \$9.00 per share. These options are exercisable if Riverdale exercises the corresponding series of warrants issued by us. If Riverdale exercises all of the warrants issued by us and we exercise all of the options issued to us, we will issue a net of 1.0 million shares at \$2.00 per share. In the transaction, Riverdale agreed to lock-up their shares acquirable upon exercise of the warrants and options for a period of one-year and our former CEO and Ultimate agreed to lock-up the shares presently held by them for the same one-year period, and not to sell them without consent of the other party, subject to certain permissible resales to institutions and to certain non-institutional purchasers who agree to lock-up their shares. Our former CEO has reported sales of some of his shares of common stock since July 2, 2001. We are not aware whether these sales were made pursuant to an exception to the lock-up agreement or the waiver or consent of the other parties to the lock-up agreement. We are also not aware whether the lock-up agreement remains in force and in effect among the parties regarding future sales.

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Riverdale has stated it does not intend to fund the credit facility. We have been in discussions with Riverdale, but because of a number of changes in the business since the signing of the commitment letter, including the sale of Car Rental Direct and the sale of the Centerling assets, the Nasdaq inquiry and the SEC investigation, we do not believe we will have the ability to borrow against the credit facility

In June 2000, we issued a warrant to purchase 20 shares of the common stock of our CENTERLINQ, Inc. subsidiary at an exercise price of \$250,000 per share. The subsidiary warrant vested immediately and was issued pursuant to a securities purchase agreement as an incentive for Infinity Outdoor to maximize its joint marketing efforts with us. At any time during the term of the subsidiary warrant, if we have not completed a public offering under an effective registration statement for the sale of shares of common stock of CENTERLINQ, Inc. for at least \$20,000,000, Infinity Outdoor has the option to tender the subsidiary warrant in exchange for a warrant to purchase 967,740 shares of GenesisIntermedia common stock at an exercise price of \$5.17 per share. In July 2001, Infinity Outdoor tendered its subsidiary warrant for a warrant to purchase 967,740 shares of GenesisIntermedia common stock at \$5.17 per share and exercised this warrant resulting in net proceeds to us of \$4,999,990.

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We expect to receive cash proceeds from the sale of Centerling assets and other company assets and the future sale of our office building. This will provide us with needed cash for us to invest in our core media business. We plan to focus our resources on our media business and to return it to profitability in the near future at the same time we look for acquisitions that will complement our core business.

However, there can be no assurance that we will be successful in commencing the trading of our stock, resolving the class action lawsuits and SEC investigation brought against us, and generating sufficient cash to continue our business.

Forward looking statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Stockholders are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, our ability to sell the Centerling assets and other company assets, the outcome of the Nasdaq inquiry, the SEC investigation and litigation against us and current and former officers and directors, general market conditions, competition and pricing. Although we believe the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements contained in the report will prove to be accurate.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 31, 2001, a lawsuit claiming to be brought derivatively on our behalf was filed by Joseph Touchstone in the Court of Chancery for the State of Delaware in and for New Castle County against us, and certain individuals, including Ramy El-Batrawi, Douglas E. Jacobson, George W. Heyworth, Michael R. Fugler and Stephen A. Weber, all current or former senior executive officers and directors of our company. The complaint alleges a breach of fiduciary duties for insider trading and misappropriation of corporate information against those defendants who sold our securities. This count alleges that the selling defendants knew or had reason to know of a scheme to artificially inflate the price of our shares, taking advantage of material non-public information to gain profits in violation of their fiduciary duties to us. The complaint also alleges against all individual defendants for breaching their duties of good faith and loyalty. This count alleges that these individuals, who are current and former officers and directors of our company, breached their duty of good faith and loyalty to us by allegedly approving or acquiescing in a scheme to artificially inflate the price of our common stock. We intend to vigorously defend ourselves against the aforementioned suit. However, an adverse outcome in this litigation could materially harm our company.

Following the announcement of the Nasdaq and SEC inquiries, several persons claiming to be our shareholders commenced securities fraud class actions against us and individuals, including current and former senior executive officers and directors. On October 18, 2001, one such class action was filed in the United States District Court for the Central District of California by David Osher, who claims to be a shareholder of record and be acting on behalf of others similarly situated, against us, Ramy El-Batrawi, Douglas E. Jacobson and Courtney Smith. The first count of the complaint alleges violations under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the making of false and misleading statements and failing to disclose material facts necessary in order

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to make the statements made, in light of the circumstances under which they were made, not misleading. This count also alleges that we, our former Chief Executive Officer and Chairman of the Board of Directors Ramy El-Batrawi, our Chief Financial Officer Douglas E. Jacobson, and stock market analyst Courtney Smith acted in a fraudulent scheme to artificially inflate the price of our common stock. The second count alleges that both our company and the individual defendants named above, which includes former senior executive officers and directors, caused us to engage in wrongful conduct in violation of Section 20(a) of the Exchange Act. We intend to vigorously defend against Mr. Osher's class action claim. However, an adverse outcome in this litigation could materially harm our company.

On October 19, 2001, another class action suit was filed in the United States District Court for the Central District of California Western Division by William Tierno, Jr., who claims to be a shareholder of record and acting on behalf of others similarly situated, against us, Ramy El-Batrawi, Douglas E. Jacobson and Courtney Smith. The first count of the complaint alleges violations under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the making of false and misleading statements and failing to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. This count also alleges that we, our former Chief Executive Officer and Chairman of the Board of Directors Ramy El-Batrawi, our Chief Financial Officer Douglas E. Jacobson, and stock market analyst Courtney Smith acted in a fraudulent scheme to artificially inflate the price of our common stock. The second count alleges that both the company and the individual defendants named above, which includes former senior executive officers and directors, caused us to engage in wrongful conduct in violation of Section 20(a) of the Exchange Act. We intend to vigorously defend against Mr. Tierno's class action claim; however, an adverse outcome in this litigation could materially harm our company.

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On October 23, 2001, another such class action lawsuit was filed in the United States District Court for the Central District of California by Jason Spiller, who claims to be a shareholder of record and be acting on behalf of others similarly situated, against our company, Ramy El-Batrawi and Douglas E. Jacobson. The complaint alleges violations under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the making of false and misleading statements and failing to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. This count also alleges that we, our former Chief Executive Officer and Chairman of the Board of Directors Ramy El-Batrawi, and our Chief Financial Officer Douglas E. Jacobson acted in a fraudulent scheme to artificially inflate the price of our common stock. In the second count Mr. Spiller's suit alleges that both we and the individual defendants named above, which includes former senior executive officers and directors, engaged in wrongful conduct in violation of Section 20(a) of the Exchange Act. We intend to vigorously defend against Mr. Spiller's class action claim; however, an adverse outcome in this litigation could materially harm our company.

On October 25, 2001, another such class action was filed in the United States District Court for the Central District of California by James H. Coltrain, Jr., who claims to be a shareholder of record and be acting on behalf of others similarly situated, against us, Ramy El-Batrawi, Douglas E. Jacobson, Courtney Smith, Orbitex Management, Inc., Orbitex Global, Courtney Smith & Company, Ultimate Holdings, Ltd. and Adnan Khashoggi. The complaint alleges violations under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the making of false and misleading statements and failing to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. This count also

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alleges that we, our former Chief Executive Officer and Chairman of the Board of Directors Ramy El-Batrawi, our Chief Financial Officer Douglas E. Jacobson, stock market analyst Courtney Smith, Orbitex Management, Inc., Orbitex Global, Courtney Smith & Company, Ultimate Holding, Inc. and Adnan Khashoggi acted in a fraudulent scheme to artificially inflate the price of our common stock. In the second count Mr. Coltrain's suit alleges that both our company and the individual defendants named above, which includes former senior executive officers and directors, engaged in wrongful conduct in violation of Section 20(a) of the Exchange Act. We intend to vigorously defend against Mr. Coltrain's class action claim; however, an adverse outcome in this litigation could materially harm our company.

On October 25, 2001, another such class action was filed in the United States District Court for the Central District of California by Suri Fingerer, who claims to be a shareholder of record and be acting on behalf of others similarly situated, against us, Ramy El-Batrawi, Douglas E. Jacobson and Courtney Smith. The first count of the complaint alleges violations under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the making of false and misleading statements and failing to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. This count also alleges that we, our former Chief Executive Officer and Chairman of the Board of Directors Ramy El-Batrawi, our Chief Financial Officer Douglas E. Jacobson, and stock market analyst Courtney Smith acted in a fraudulent scheme to artificially inflate the price of our common stock. The second count alleges that both the company and the individual defendants named above, which includes former senior executive officers and directors, engaged in wrongful conduct in violation of Section 20(a) of the Exchange Act. We intend to vigorously defend against Mr. Fingerer's class action claim; however, an adverse outcome in this litigation could materially harm our company.

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We have not been served notice of additional lawsuits arising from the same subject matter as the class action lawsuits discussed above, and to our knowledge no such lawsuits exist, but it is possible other such lawsuits may have been filed without our knowledge.

We cannot predict the ultimate outcome of the lawsuits and investigations discussed above. Director and officer liability insurance against certain liabilities, including liabilities under the securities laws, was in force at the time the securities and derivative litigation was commenced. We have not established any reserve for possible losses resulting from the claims asserted in the securities and derivative litigation. We believe that our liability insurance covers the claims asserted in the securities and derivative litigation and that we may be able to resolve those claims within the limits of our coverage. Because the insurers have denied coverage for these claims, we recently commenced a lawsuit against them. We intend to vigorously pursue the claim for our coverage rights. However, an adverse outcome in this litigation could materially harm our company.

We are also involved from time to time in various claims and legal actions incident to our operations, either as plaintiff or defendant. We vigorously defend ourselves against all lawsuits filed by plaintiffs. Other than the litigation described above we are not aware of any other litigation that we believe would have a material impact on our financial position or our results of operations.

Item 2. Changes in Securities and Use of Proceeds

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In July 2001, the Company issued a warrant to Infinity Outdoor to purchase 967,740 shares of common stock at \$5.17 per share. Infinity Outdoor exercised this warrant resulting in net proceeds to the Company of \$4,999,990. The sale of the securities were exempt under the Securities Act of 1933, as amended, in reliance on Section 4(2) or Regulation D promulgated thereunder as a transaction by an issuer not involving a public offering.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

- (1) Current Report on Form 8-K dated June 29, 2001 filed with the Securities and Exchange Commission on July 2, 2001.
- (2) Current Report on Form 8-K dated June 29, 2001 filed with the Securities and Exchange Commission on July 2, 2001.
- (3) Current Report on Form 8-K/A dated June 29, 2001 filed with the Securities and Exchange Commission on July 5, 2001.
- (4) Current Report on Form 8-K dated August 30, 2001 filed with the Securities and Exchange Commission on August 31, 2001.
- (5) Current Report on Form 8-K dated October 8, 2001 filed with the Securities and Exchange Commission on October 11, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENESISINTERMEDIA, INC.

By: /s/ Douglas E. Jacobson

Douglas E. Jacobson
Chief Financial and Principal
Accounting Officer

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Date: November 19, 2001