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VFINANCE INC
Form 10QSB
May 15, 2003

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

FORM 10-QSB
(Mark One)

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

For the quarterly period ended MARCH 31, 2003

or

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

For the transition period _____ to _____

Commission File Number 1-11454-03

VFINANCE, INC.

(Exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

58-1974423

(I.R.S. Employer
Identification No.)

3010 North Military Trail, Suite 300, Boca Raton, FL 33431
(Address of principal executive offices)

(561) 981-1000

(Issuer's telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of March 31, 2003:

29,851,570 shares of Common Stock \$0.01 par value

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

INDEX

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VFINANCE, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheet - March 31, 2003 (Unaudited)4

Consolidated Statements of Operations for the three months ended
March 31, 2002 and 2003 (Unaudited)5

Consolidated Statements of Cash Flows for the three months ended
March 31, 2002 and 2003 (Unaudited)6

Notes to Consolidated Financial Statements (Unaudited)7-11

Item 2. Management's Discussion and Analysis of Financial Condition and
Results of Operations12-13

Item 3. Controls and Procedures13

PART II. OTHER INFORMATION

Item 1. Legal Proceedings14

Item 2. Changes in Securities14

Item 6. Exhibits and Reports on Form 8-K15

Signatures16

FORWARD-LOOKING STATEMENTS

This form 10-Q for vFinance, Inc. (the "Company") includes statements that may constitute "forward-looking" statements, usually containing the words "believe", "estimate", "intend", "expect", or similar expressions. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, the inability of our broker-dealer operations to operate profitably in the face of intense competition from larger full service and discount brokers, a general decrease in merger and acquisition activities and our potential inability to receive success fees as a result of transactions not being completed, our potential inability to implement our growth strategy through acquisitions or joint ventures, our potential inability to secure additional debt or equity financing to support our growth strategies and other risks detailed in the Company's periodic report filings with the Securities and Exchange Commission. By making these forward-looking statements, the Company undertakes no obligation to update these statements for revisions or changes after the date of this form 10-Q.

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VFINANCE, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	March 31, 2003

Assets:	
Cash and cash equivalents	\$ 2,117,203
Investments in trading securities	1,093,148
Accounts receivable, net of allowance for doubtful accounts of \$269,028	251,166
Forgivable loans - employees, current portion	140,000
Notes receivable - employees	97,730
Prepaid expenses and other current assets	88,838

Total current assets	3,788,085
 Furniture and equipment, at cost:	
Furniture and equipment	397,419
Internal use software	158,500

	555,919
Less accumulated depreciation	(328,148)

Net furniture and equipment	227,771
 Forgivable loans - employees	87,160
Goodwill	420,000
Other assets	234,032

Total Assets	\$ 4,757,048
=====	
 Liabilities and Shareholders' Equity:	
Accounts payable	\$ 688,277
Accrued payroll	738,470
Other accrued liabilities	599,716
Due to clearing broker	85,495
Securities sold, not yet purchased	75,144
Other	40,080

Total current liabilities	2,227,182
 Notes payable - long term	2,048,168
 Shareholders' Equity:	
Common stock, \$0.01 par value, 75,000,000 shares Authorized, 29,851,570 issued and outstanding	298,520
Additional paid-in-capital on common stock	24,346,798
Accumulated deficit	(24,163,620)

Total Shareholders' Equity	481,698

Total Liabilities and Shareholders' Equity	\$ 4,757,048
=====	

See accompanying notes

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4

vFINANCE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,	
	2002	2003
Revenues:		
Commissions - agency	\$ 2,525,019	\$ 2,254,762
Trading profits.....	1,034,365	763,861
Success fees	1,604,196	139,270
Consulting and retainers	331,597	147,993
Other brokerage related income	320,169	288,263
Other	89,256	112,452
Total revenues	5,904,602	3,706,601
Cost of revenues:		
Commissions	2,297,086	1,915,432
Clearing and transaction costs	249,860	174,007
Success	772,420	66,051
Consulting and retainers	7,500	49,207
Other	9,262	4,759
Total cost of revenues	3,336,128	2,209,456
Gross profit	2,568,474	1,497,145
Other expenses:		
General and administrative	2,444,430	1,586,765
Net (gain) loss on trading securities	(12,652)	2,728
Professional fees	239,277	80,212
Provision for bad debts	60,560	-
Legal litigation	-	65,242
Net unrealized gain on investments held for trading and stock purchase warrants	(60,329)	(72,008)
Depreciation and amortization	73,360	29,046
Amounts forgiven under forgivable loans	74,375	27,500
Stock based compensation	-	12,420
Total other expenses	2,818,931	1,731,905
Loss from operations	(250,457)	(234,760)
Gain on sale of property	194	-
Interest and dividend income (expense)	(97,158)	(27,202)
Net loss	(347,421)	(261,962)
Less: Preferred stock dividend	(30,625)	-
Loss available to common stockholders	\$ (378,046)	\$ (261,962)

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	=====	=====
Loss per share:		
Basic	(\$ 0.02)	(\$ 0.01)
	=====	=====
Weighted average number of common shares used in computing basic loss per share	23,387,097	28,868,237
	=====	=====
Diluted	(\$ 0.02)	(\$ 0.01)
	=====	=====
Weighted average number of common shares used in computing diluted loss per share	23,387,097	28,868,237
	=====	=====

See accompanying notes

5

VFINANCE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	----- 2002	2003 -----
OPERATING ACTIVITIES		
Net loss	\$ (347,421)	\$ (261,962)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash fees received	(352,235)	(20,297)
Depreciation and amortization	74,378	29,045
Provision for doubtful accounts	60,560	-
Accretion of debt discount	-	18,348
Unrealized gain on investments, net	(36,815)	(86,368)
Unrealized (gain) loss on stock purchase warrants	(23,515)	14,360
Amount forgiven under forgivable loans	74,375	27,500
Stock based compensation.....	-	12,420
Changes in operating assets and liabilities:		
Accounts receivable	(243,843)	(21,704)
Forgivable Loans - employees.....	23,438	-
Due from clearing broker	1,167,906	182,129
Notes receivable - employees	(7,000)	49,713
Investments	(1,120,212)	241,055
Other current assets	1,063	14,229
Other assets and liabilities	20,346	1,550
Accounts payable and accrued liabilities	(71,414)	(445,550)
Securities, sold not yet purchased	78,811	5,575
	-----	-----
Net cash used in operating activities	(701,578)	(239,957)
INVESTING ACTIVITIES		
Purchase of equipment	(64,156)	-
	-----	-----
Net cash used in investing activities	(64,156)	-
FINANCING ACTIVITIES		
Changes in capital leases	(20,537)	-

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Changes in current debt	29,063	-
Proceeds from credit agreement	1,500,000	-
Proceeds from issuance of common stock related to private placements	123,750	130,000
	-----	-----
Net cash provided by financing activities	1,632,276	130,000
 (Decrease) increase in cash and cash equivalents	 866,542	 (109,957)
Cash and cash equivalents at beginning of year ..	1,826,474	2,227,160
	-----	-----
Cash and cash equivalents at end of period	\$ 2,693,016	\$ 2,117,203
	=====	=====

See accompanying notes

6

vFinance, Inc.

Notes to Condensed Consolidated Financial Statements March 31, 2003

(Unaudited)

1. DESCRIPTION OF BUSINESS

vFinance, Inc. is a "new-breed" financial services enterprise committed to building a worldwide audience of individuals looking to create wealth through equity investments in both their personal portfolios and their businesses. The Company principally operates in one business segment which can be referred to as investment management services and consists primarily of financial services, including retail brokerage and investment banking.

The Company conducts its broker/dealer operations and investment banking and consulting through vFinance Investments, Inc, a licensed broker dealer. It also operates its vFinance.com website through vFinance Holdings, Inc., manages its Critical Infrastructure Fund (BVI) LP through vFinance Advisors, LLC and vFinance Investors, LLC and processes its mortgage brokerage through vFinance Financial Lending Services, Inc.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts have been eliminated in consolidation. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three-month period ended March 31, 2003 are not necessarily indicative of the results to be expected for the year ended December 31, 2003. The interim financial statements should be read in conjunction with the audited financial statements and notes contained in the Company's Annual Report on Form 10-KSB for the year-ended December 31, 2002

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Revenue Recognition

The Company earns revenue (commissions) from brokerage and trading which are recognized on the day of the trade - trade date basis. The Company also earns revenue from investment banking and consulting. Monthly retainer fees for investment banking and consulting are recognized as services are provided. Investment banking success fees are generally based on a percentage of the total value of a transaction and are recognized upon successful completion.

The Company does not require collateral from its customers. Revenues are not concentrated in any particular region of the country or with any individual or group.

The Company periodically receives equity instruments such as stock purchase warrants, common stock and preferred stock from companies as part of its compensation for investment-banking services. Such instruments are classified as investments in trading securities on the Company's balance sheet, if still held at the financial reporting date. Primarily all of the equity instruments are received from small public companies. The Company recognizes revenue for the stock purchase warrants, when received, based on the Black Scholes valuation model. The revenue recognized related to the other equity instruments is determined based on available market information. On a monthly basis, the Company recognizes unrealized gains or losses in its statement of operations based on the changes in value of equity instruments. Realized gains or losses are recognized in the Company's statement of operations when the related equity instrument is sold.

Occasionally, the Company receives equity instruments in private companies with no readily available market value. Equity interests and warrants for which there is not a public market are valued based on factors such as significant equity financing by sophisticated, unrelated new investors, history of positive cash flow from operations, the market value of comparable publicly traded companies (discounted for liquidity) and other pertinent factors. Management also considers recent offers to purchase a portfolio company's securities and the filings of registration statements in connection with a portfolio company's initial public offering when valuing equity instruments received from a private company.

The Company sells two types of listings to its website: (i) perpetual listings to venture capital vendors, who are interested in providing services to other companies or individuals; and (ii) three-month listings to entrepreneurs who have new business ideas to sell. Revenue related to the listings is generally recognized over the terms of such listings. Website revenues are concentrated primarily in the United States but are not concentrated in any particular region of the country or with any individual or group. Fees related to such listings are included in "other" in the statements of operations.

7

Reclassifications

Certain prior period balances have been reclassified to conform to the current period's financial statement presentation. These reclassifications had no impact on previously reported results of operations or shareholders' equity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates

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and assumptions that affect the amounts reported in the accompanying financial statements. Actual results may differ from those estimates, and such differences may be material to the financial statements.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with maturities of three months or less when purchased.

Investments

Investments are classified as trading securities and are held for resale in anticipation of short-term market movements or until such securities are registered or are otherwise unrestricted. Trading account assets, consisting of marketable equity securities and stock purchase warrants, are stated at fair value. At March 31, 2003 investments consisted of common stock and common stock purchase warrants held for resale. Realized gains or losses are recognized in the statement of operations when the related stock purchase warrant is exercised and the underlying shares are sold. Unrealized gains or losses are recognized in the statement of operations on a monthly basis based on changes in the fair value of the security as quoted on national or inter-dealer stock exchanges.

Stock Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES ("APB 25"), and related interpretations in accounting for its employee stock options and employee stock purchase warrants because the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, ACCOUNTING FOR STOCK BASED COMPENSATION ("SFAS 123") and SFAS 148, Accounting for Stock Based Compensation Transition and Disclosure an amendment of SFAS 123, requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, if the exercise price of the Company's employee stock options or stock purchase warrants equals or exceeds the market price of the underlying stock on the date of grant no compensation expense is recognized.

Upon the consummation of an advisory, consulting, capital or other similar transaction, the Company may distribute equity instruments or proceeds from the sale of equity instruments to its employees. These distributions are made at the Company's discretion on a case by case basis as determined by the role of the employee and the nature of the transaction. At March 31, 2003, there were no amounts owed to current employees of the Company in connection with equity investments received as compensation.

Fair Value of Financial Instruments

The fair values of the Company's financial instruments, which includes cash and cash equivalents, accounts receivable, investments, accounts payable, and accrued expenses approximate their carrying values.

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash with high quality financial institutions.

Goodwill

The carrying values of goodwill as well as other long-lived assets are reviewed if the facts and circumstances suggest that they may be impaired. If this review indicates that the assets will not be recoverable, as determined based on the undiscounted estimated cash flows of the Company over the remaining amortization period, the Company's carrying values of the assets would be reduced to their

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estimated fair values in accordance with FAS 144.

Income Taxes

The Company accounts for income taxes under the liability method in accordance with Statement of Financial Accounting Standards No. 109, ACCOUNTING FOR INCOME TAXES. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

8

Earnings per Share

The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards No. 128, EARNINGS PER SHARE ("SFAS No. 128"). In accordance with SFAS No. 128, basic earnings per share is computed using the weighted average number of shares of common stock outstanding and diluted earnings per share is computed using the weighted average number of shares of common stock and the dilutive effect of options and warrants outstanding, using the "treasury stock" method.

Forgivable Loans

In order to remain competitive in the marketplace, the Company granted forgivable loans to certain employees. The terms of the loans range from two to five years with scheduled maturity dates from 2002 to 2005. For each year the employee is in good standing with the Company, the Company forgives a ratable portion of the principal and related interest and charges this amount to compensation expense. If the employee is terminated, the principal balance is due and payable within 120 days. The loans do not bear interest and interest is not imputed as collectibility of any such interest would not be probable. As of March 31, 2003, the balance of the forgivable loans was \$227,160 of which \$140,000 is classified as current. The remaining long-term portion of \$87,160 is scheduled for forgiveness as follows: \$77,660 in 2004 and \$9,500 in 2005.

3. IMPAIRMENT OF GOODWILL

Management determined that there was no impairment of goodwill during the quarters ended March 31, 2002 and 2003. Goodwill carried on the balance sheet as of March 31, 2003 was \$420,000.

4. SHAREHOLDER'S EQUITY

On November 28, 2001, the Company entered into a Note Purchase Agreement, as amended by subsequent letter agreements dated November 30, 2001, December 14, 2001, and December 28, 2001, February 13, 2002 and March 4, 2002 (collectively, the "Note Purchase Agreement"), with SBI Investments (USA) Inc. ("SBI"). Under the terms of the Note Purchase Agreement, SBI may provide a subordinated loan to the Company of up to \$1,500,000 in the form of a 48-month non-interest bearing, convertible note. As of December 31, 2002, the Company had received \$975,000 under the Note Purchase Agreement and could have received, at SBI's option alone, an additional \$525,000 no later than June 30, 2002. The additional \$525,000 was not funded. The note is convertible, at SBI's option, into as many as 3,421,053 shares of our common stock at \$0.285 per share. The Company, at any time during the first three years of the agreement, can call for redemption of the note at a price equal to 116.67% of the then outstanding principal amount of the Note, in whole (but not in part), or force the conversion of the note into shares of the Company's common stock.

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In July 2002, certain SBI Note holders converted \$177,500 of principal into 622,807 shares of common stock of the Company. The Company reflected an adjustment to its par value of Common Stock equal to \$6,228 and reduced its note payable and unamortized beneficial conversion/imputed interest amount by \$177,500.

In November 2002, an SBI Note holder converted \$47,500 of principal into 166,667 shares of common stock of the Company. The Company reflected an adjustment to its par value of Common Stock equal to \$1,667 and reduced its note payable and unamortized beneficial conversion/imputed interest amount by \$47,500.

In accordance with EITF Issue No. 00-27, (APPLICATION OF ISSUE NO. 98-5), ACCOUNTING FOR CONVERTIBLE SECURITIES WITH BENEFICIAL CONVERSION FEATURES OF CONTINGENTLY ADJUSTABLE CONVERSION RATIOS, IN CERTAIN CONVERTIBLE INSTRUMENTS, and APB #21 (INTEREST ON RECEIVABLES AND PAYABLES) the Company recorded an imputed interest factor related to the Note Purchase Agreement of \$563,000. The Company fully expensed the beneficial conversion factor due to the fact that the SBI Note was immediately convertible. The net one time charge to the financial statements was \$412,000. The imputed interest is accreted ratably over the term of the loan as additional interest expense. Amortization of the imputed interest began in January 2002.

The Company has elected to follow Accounting Principle Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided under FASB Statement No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, ("SFAS 123") requires the use of option valuation models that were not developed for use in valuing employee stock options. As permitted, the Company adopted the disclosure alternative of SFAS 123 and SFAS 148, which require pro forma disclosure of net income and earnings per share as if the fair value method of accounting had been applied. Under APB 25, when the exercise price of the Company's stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expense is recorded.

9

A summary of the stock option activity for the three months ended March 31, 2003 is as follows:

	Weighted Average Exercise Price	Number of Shares	Exercise Price Per Option
	-----	-----	-----
Outstanding options at December 31, 2002	\$0.50	4,471,664	\$0.15 - \$6.00
Granted	\$0.19	1,390,000	\$0.15 - \$0.20
Cancelled	\$0.57	(468,450)	\$0.32 - \$2.25

Outstanding options at March 31, 2003 ..	\$0.41	5,393,214	\$0.15 - \$6.00

A summary of the stock purchase warrant activity for the three months ended March 31, 2003 is as follows:

	Weighted Average Exercise Price	Number of Warrants	Exercise Price Per Option
	-----	-----	-----

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Outstanding warrants at December 31, 2002	\$2.15	4,108,499	\$0.35 - \$7.20
Granted	\$0.20	1,000,000	\$0.20
Cancelled	-	-	-
Outstanding options at March 31, 2003 ...	\$1.77	5,108,499	\$0.20 - \$7.20
		=====	

The following table summarizes information concerning stock options outstanding at March 31, 2003.

Option Price	Options Outstanding
-----	-----
0.15	410,000
0.20	1,050,000
0.32	1,765,000
0.35	1,539,215
0.50	100,000
0.55	69,000
0.63	182,500
0.70	39,000
1.00	31,000
2.25	157,499
4.00	10,000
4.13	20,000
5.00	10,000
6.00	10,000

	5,393,214
	=====

10

The following table summarizes information concerning warrants outstanding at March 31, 2003.

Exercise Price	Warrants Outstanding
-----	-----
0.20	1,000,000
0.35	1,993,500
0.63	400,000
2.25	585,000
2.50	300,000
6.00	129,999
7.20	700,000

	5,108,499
	=====

Pro forma information regarding net loss is required by SFAS 123, which also requires that the information be determined as if the Company has accounted for its employee stock options under the fair value method. The fair value for options and warrants granted was estimated at the date of grant using the Black Scholes option pricing model with the following weighted-average assumptions: for 2003 risk free interest rates of 4.25%; no dividend yields; volatility

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factor of the expected market price of the Company's common stock of 2.345 for options and warrants and an expected life of the options and warrants of 4-5 years. The Company's pro forma net loss for the period ended March 31, 2003 was \$366,207. The Company's pro forma basic and diluted net loss per share for the period ended March 31, 2003 was \$0.03. The impact of the Company's pro forma net loss and loss per share of the SFAS 123 pro forma requirements are not likely to be representative of future pro forma results.

5. DEBT

On January 25, 2002, the Company entered into a Credit Agreement with UBS Americas, Inc. ("UBS"). Under the terms of the Credit Agreement, UBS provided a revolving credit facility of up to \$3,000,000 to the Company for the purpose of supporting the expansion of its brokerage business or investments in infrastructure to expand its operations or its broker-dealer operations. The loan has a term of 4 years, must be repaid in full by January 2005, and bears interest at one month LIBOR plus a LIBOR margin of 2% if the loan is repaid within a month or 5% if it is outstanding more than a month. Among other covenants, Section 5.10 of the Credit Agreement requires the Company to maintain shareholder's equity of at least \$7,000,000. On April 12, 2002 UBS waived this requirement of the Credit Agreement to the extent necessary to exclude the Company's write-off of goodwill aggregating \$8,852,020 included in the Company's consolidated financial statements for the year ended December 31, 2001.

The Company must make early repayments under the Credit Agreement if it acquires a new broker dealer firm, enters a new line of business, or hires more than 4 brokers in a single or related transaction. This repayment is made by adding \$1.00 to the cost of each incremental clearing transaction the Company makes through CSC, a wholly owned subsidiary of Paine Webber which is a wholly owned subsidiary of UBS. All determinations as to required early repayment shall be made by UBS, in its reasonable judgment. To date, UBS has not notified the Company of any such determination. The Company borrowed \$1,500,000 under the credit facility on January 28, 2002. The Credit Agreement does not provide for conversion of the debt into equity securities.

11

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

THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THE THREE MONTHS ENDED
MARCH 31, 2002

STATEMENTS OF OPERATIONS

Operating revenues were \$3,706,601 for the three months ended March 31, 2003 as compared to \$5,904,602 for the three months ended March 31, 2002 a decrease of \$2,198,001 or 37%. The primary reason for the decrease was a significant reduction in success fees generated from Investment Banking efforts. The Company is strengthening its efforts in this area by the recruitment of several seasoned, high-level investment bankers.

Cost of revenues were \$2,209,456 for the three months ended March 31, 2003 as compared to \$3,336,128 for the three months ended March 31, 2002 a decrease of \$1,126,672 or 33%. The decrease was primarily due to the reduction in Investment Banking success fees, referred to above, and the corresponding decrease in payouts to the Company's bankers. As a consequence, gross profit was \$1,497,145 for the three months ended March 31, 2003 as compared to \$2,568,474 for the three months ended March 31, 2002, a decrease of \$1,071,329. The corresponding gross margin was 40% for the three months ended March 31, 2003 as compared to

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44% for the three months ended March 31, 2002. The reduced gross margin percentage during the current quarter is also a result of the significant reduction in success fees which have comparatively higher margins than the Company's brokerage and trading revenues.

General and administrative expenses were \$1,586,765 for the three months ended March 31, 2003 as compared to \$2,444,430 for the three months ended March 31, 2002, a decrease of \$857,665, or 35%. This decrease is primarily related to the Company's cost savings measures including headcount reductions and consolidation of its facility space. The Company has been consciously limiting its spending in this difficult economic environment.

Net loss (gain) on trading securities was \$2,728 for the three months ended March 31, 2003 as compared to (\$12,652) for the three months ended March 31, 2002. The net loss (gain) is a result of the value realized upon the disposition of a particular security.

Professional fees were \$80,212 for the three months ended March 31, 2003 as compared to \$239,277 for the three months ended March 31, 2002, a decrease of \$159,065, or 66%. The decrease in cost was primarily attributable to better utilization of the Company's internal professional staff thereby reducing its reliance on outside consultants.

The provision for bad debt was \$0 for the three months ended March 31, 2003 as compared to \$60,560 for the three months ended March 31, 2002, a decrease of \$60,560, or 100%. The Company provides for credit losses at the time it believes accounts receivable may not be collectible. Such evaluations are made and recorded on a monthly basis.

Legal litigation fees were \$65,242 for the three months ended March 31, 2003 as compared to \$0 for the three months ended March 31, 2002, an increase of \$65,242, or 100%. As is typical in the industry, the Company defends itself vigorously against customer claims. As a result, legal litigation costs may be higher at certain times. While the Company's reserve for anticipated settlements has remained relatively constant year to year, its cost to defend itself varies from quarter to quarter.

The net unrealized gain on investments held for trading and stock purchase warrants was (\$72,008) for the three months ended March 31, 2003, as compared to \$(60,329) for the three months ended March 31, 2002. The respective gains were primarily due to an increase in the market value of investments held by the Company in conjunction with equity instruments received from various investment banking clients.

Depreciation and amortization was \$29,046 for the three months ended March 31, 2003 as compared to \$73,360 for the three months ended March 31, 2002, a decrease of \$44,314, or 60%. The decrease was primarily due to certain fixed assets becoming fully depreciated and not subsequently replaced. Additionally, as facilities were consolidated and headcount reduced, there was a reduction in requirements for additional fixed asset purchases.

The amount forgiven under forgivable loans was \$27,500 for the three months ended March 31, 2003 as compared to \$74,375 for the three months ended March 31, 2002, a decrease of \$46,875, or 63%. The decrease is attributable to the fact that the Company, several years ago, discontinued its practice of providing forgivable loans to brokers as part of its recruitment efforts. Accordingly, there have been no additions to the outstanding balance and it is being reduced over time.

Stock based compensation was \$12,420 for the three months ended March 31, 2003 as compared to \$0 for the three months ended March 31, 2002, an increase of \$12,420, or 100%. This amount represents the amortization of deferred

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compensation to an outside consultant who was granted options from the Company in return for his services during late 2002. The amount of deferred compensation was fully recognized as of March 31, 2003.

12

Liquidity and Capital Resources

The Company had \$2,117,203 of unrestricted cash at March 31, 2003.

Net cash used in operating activities for the three months ending March 31, 2003, was \$239,957 as opposed to net cash used in operating activities of \$701,578 for the three months ending March 31, 2002. The decrease in net cash used in operating activities was primarily due to reduced accounts receivable and a reduction of non-cash fees received.

Net cash used in investing activities for the three months ending March 31, 2003, was \$0 as opposed to net cash used in operating activities of \$64,156 for the three months ending March 31, 2002. The primary reason for the decrease in net cash used in investing activities was that the Company has reduced its headcount and facility space resulting in reduced fixed asset requirements.

Net cash provided in financing activities for the three months ending March 31, 2003, was \$130,000 as opposed to net cash provided in financing activities of \$1,632,276 for the three months ending March 31, 2002. The decrease in net cash provided by financing activities is due to the fact that the Company entered into a debt agreement with UBS Paine Webber borrowing \$1,500,000 during the first quarter of 2002. The Company has had no further need to increase its debt position since that time.

The Company anticipates that it may need additional debt or equity financing in order to carry out its long-term business strategy. Such strategy may be financed by bank borrowings, public offerings, private placements of equity or debt securities, or a combination of the foregoing.

We do not have any material commitments for capital expenditures over the course of the next fiscal year.

The Company's operations are not affected by seasonal fluctuations however they are to some extent reliant on the continuation of mergers and acquisitions and related financings in the entrepreneurial marketplace.

ITEM 3. CONTROLS AND PROCEDURES.

Our Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for us. Based upon such officers' evaluation of these controls and procedures as of a date within 45 days of the filing of this Quarterly Report, and subject to the limitations noted hereinafter, the Certifying Officers have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in this Quarterly Report is accumulated and communicated to management, including our principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officers have also indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material

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weaknesses.

Our management, including each of the Certifying Officers, does not expect that our disclosure controls or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and their can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

13

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On or about May 6, 2003 an Answer and Counterclaim was filed by FreeStar Technology Corporation and Paul Egan (collectively, the "Defendants") in response to a Complaint, as amended, previously filed against the Defendants in the United States District Court, Southern District of New York by the Plaintiffs, Boat Basin Investors, LLC, Papell Holdings, Ltd., Marc Siegel, David Stefansky and Richard Rosenblum. In the Answer and Counterclaim, which as of the date of this filing was not served upon vFinance Investments, Inc., Defendants counter claimed against the Plaintiffs and also named vFinance Investments, Inc., a wholly-owned subsidiary of the Company, as a counter defendant in such counter claim. Defendants' claims against vFinance Investments, Inc. include breach of fiduciary duty, breach of contract, negligence, and negligent misrepresentation and omission. Defendants are seeking judgment against vFinance Investments, Inc. for general and special damages in an amount of at least \$18 million and punitive damages in an amount of at least \$6 million. vFinance Investments, Inc., if and when served with this counterclaim, will vigorously defend the action. The Company believes the counter claims against vFinance Investments Inc. are totally without merit.

Item 2. CHANGES IN SECURITIES

On February 27, 2003 the Company sold 1,500,000 unregistered shares at a price of \$0.0867 per share for a total consideration of \$130,000. These shares were sold to Arend Verweij and Hoss Bozorgzad, independent contractors of the Company.

The above noted securities were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, because the securities were acquired in a privately negotiated transaction by sophisticated investors.

During the first quarter of 2003, the Company granted stock options to purchase

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an aggregate of 1,390,000 shares of the Company 's common stock to five employees of the Company. The exercise prices of these options range from \$.15 to \$0.20. The option grants were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, because the individuals receiving the options are sophisticated investors who have knowledge of all material information about the Company.

14

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS

99.1 - Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley act of 2002.

99.2 - Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley act of 2002.

(b) REPORTS ON FORM 8-K

None.

15

SIGNATURES

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

Signature -----	Title -----	Date ----
By: /s/ Leonard J. Sokolow ----- Leonard J. Sokolow	Chief Executive Officer and President (Principal Executive Officer)	May 15, 2003
By: /s/ Mark Kacer ----- Mark Kacer	Chief Financial Officer and (Principal Financial and Accounting Officer)	May 15, 2003

16

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of vFinance, Inc. on Form 10-QSB for the quarter ended March 31, 2003, as filed with the Securities and Exchange

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Commission on the date hereof, I, Leonard J. Sokolow, the Chief Executive Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-QSB of vFinance, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order; to make the statements made, in light of the circumstances under which such statements were made not, not misleading;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Leonard J. Sokolow

Name: Leonard J. Sokolow
Title: Chief Executive Officer

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17

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of vFinance, Inc. on Form 10-QSB for the quarter ended March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof, I, Mark Kacer, the Chief Financial Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-QSB of vFinance, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order; to make the statements made, in light of the circumstances under which such statements were made not, not misleading;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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Date: May 15, 2003

/s/ Mark Kacer

Name: Mark Kacer

Title: Chief Financial Officer

