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VFINANCE INC
Form 10QSB
August 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 JUNE 30, 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)

State the number of shares outstanding of each of the issuer's classes of common
equity, as of June 30, 2003:

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

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

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VFINANCE, INC.

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FORWARD-LOOKING STATEMENTS

This form 10-QSB 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-QSB.

vFINANCE, INC.
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

June 30, 2003

Assets:

Current Assets:

Cash and cash equivalents	\$ 3,117,237
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Investments in trading securities	1,025,842
Accounts receivable, net of allowance for doubtful accounts	228,459
Forgivable loans - employees, current portion	140,000
Notes receivable - employees, net of allowance for doubtful accounts	102,497
Prepaid expenses and other current assets	89,551

Total Current Assets	4,703,586
Furniture, equipment, and software, at cost:	
Furniture and equipment	403,948
Internal use software	158,500

	562,448
Less accumulated depreciation	(357,324)

Net furniture, equipment, and software	205,124
Forgivable loans - employees	59,660
Goodwill, net of accumulated amortization	420,000
Other assets	229,596

Total Assets	\$ 5,617,966
	=====
Liabilities and Shareholders' Equity:	
Accounts payable	\$779,369
Due to clearing broker	38,321
Accrued payroll	1,452,827
Accrued interest	8,000
Other accrued liabilities	622,737
Securities sold, not yet purchased	54,656
Other	28,568

Total Current Liabilities	2,984,478
Notes Payable - long term	2,066,517
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	24,376,798
Deferred compensation	(27,353)
Accumulated deficit	(24,080,994)

Total Shareholders' Equity	566,971

Total Liabilities and Shareholders' Equity	\$ 5,617,966
	=====

See accompanying notes.

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VFINANCE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

Three Months Ended June 30
2002 2003

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Revenues:	-----	-----	-----
Commissions - agency	\$ 2,225,366	\$ 3,427,594	\$ 4,750,000
Trading profits	767,778	992,457	1,802,000
Success fees	455,531	824,556	2,059,000
Consulting and retainers	425,500	137,502	757,000
Other brokerage related income	305,226	666,726	468,000
Other	100,688	117,533	189,000
	-----	-----	-----
Total revenues	4,280,089	6,166,368	10,027,000
	-----	-----	-----
Cost of revenues:			
Commissions	1,844,200	3,371,337	3,983,000
Clearing and transaction costs	222,554	444,677	472,000
Success	362,557	79,542	1,134,000
Consulting and retainers	79,365	217,718	86,000
Other	9,445	5,279	18,000
	-----	-----	-----
Total cost of revenues	2,518,121	4,118,553	5,696,000
	-----	-----	-----
Gross profit	1,761,968	2,047,815	4,330,000
	-----	-----	-----
Other expenses:			
General and administrative	2,303,944	1,587,585	4,708,000
Net loss (gain) on trading securities	(995)	(51,097)	(13,000)
Professional fees	327,921	113,714	567,000
Provision for bad debts	176,086	25,867	236,000
Legal litigation and arbitration	61,860	94,015	101,000
Net unrealized loss (gain) on investments held for trading and stock purchase warrants	316,353	112,163	256,000
Depreciation and amortization	74,653	29,176	148,000
Amounts forgiven under forgivable loans	69,375	27,500	144,000
Stock based compensation expense	-	2,647	-
	-----	-----	-----
Total other expenses	3,329,197	1,941,570	6,147,000
	-----	-----	-----
Loss (income) from operations	1,567,229	(106,245)	1,817,000
	-----	-----	-----
Interest and dividend expense	85,663	23,618	157,000
	-----	-----	-----
Pre-tax net loss (income)	1,652,892	(82,627)	1,974,000
Income tax expense	139,513	-	139,000
	-----	-----	-----
Net loss (income)	1,792,405	(82,627)	2,114,000
Less: Preferred stock dividend	48,125	-	78,000
	-----	-----	-----
Loss (income) available to common stockholders	\$ 1,840,530	\$ (82,627)	\$ 2,192,000
	=====	=====	=====
Loss (income) per share:			
Basic	\$ 0.08	\$ (0.00)	\$
	=====	=====	=====
Weighted average number of common shares used in computing basic loss per share	23,220,430	29,851,570	23,284,000
	=====	=====	=====
Diluted	\$ 0.08	\$ (0.00)	\$
	=====	=====	=====
Weighted average number of common shares used in computing diluted loss per share	23,220,430	29,851,570	23,284,000

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See accompanying notes.

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

	Six Months Ended June 30, 2002	2003
	-----	-----
OPERATING ACTIVITIES		
Net Loss	\$ (2,114,076)	\$ (179,336)
Adjustments to reconcile net loss to net cash provided (used) in operating activities:		
Non-cash fees received	(687,187)	(219,817)
Depreciation and amortization	148,013	58,221
Provision for doubtful accounts	235,460	25,866
Non-cash compensation	-	40,797
Income tax receivable write off	139,513	-
Accretion of debt discount	121,875	36,697
Unrealized loss (gain) on investments, net	167,244	(116,419)
Unrealized loss on warrants	88,780	156,574
Amount forgiven under forgivable loan	144,188	55,000
Stock based compensation	-	15,067
Accounts receivable	(286,315)	(19,181)
Forgivable loans	23,000	-
Due from clearing broker	694,698	134,955
Notes receivable from employees	17,924	44,946
Investments in trading securities	476,609	351,584
Other current assets	40,880	14,228
Other assets and liabilities	20,644	(29,072)
Accounts payable and accrued liabilities	(549,282)	390,920
Securities sold, not yet purchased	37,017	5,575
	-----	-----
Net cash provided (used) in operating activities	(1,281,015)	\$ 766,605
	-----	-----
INVESTING ACTIVITIES		
Purchase of equipment	(81,105)	(6,529)
Disposal of businesses, cash effect	1,659	-
	-----	-----
Net cash used in investing activities	(79,446)	(6,529)
	-----	-----
FINANCING ACTIVITIES		
Change in capital leases	(29,749)	-
Changes in current debt	(31,875)	-
Proceeds from credit agreement	1,500,000	-
Proceeds from issuance of common stock	123,750	130,000
Payment of long term debt	(68,500)	-
	-----	-----
Net cash provided by financing activities	1,493,626	130,000
	-----	-----
Increase in cash	133,165	890,076
Cash and cash equivalents at beginning of period	1,826,474	2,227,161
	-----	-----
Cash and cash equivalents at end of period	\$ 1,959,639	\$ 3,117,237

See accompanying notes.

vFinance, Inc.

Notes to Consolidated Financial Statements June 30, 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, investment banking and consulting through vFinance Investments, Inc, a licensed broker dealer. It also operates its vFinance.com website through vFinance Holdings, Inc., manages the 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 six-month period ended June 30, 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

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 may receive equity instruments such as stock purchase warrants, common stock and preferred stock from companies as part of its compensation for

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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. These instruments are stated at fair value in accordance with SFAS #115 "Accounting for certain investments in debt and equity securities" and EITF 00-8 "Accounting by a grantee for an equity instrument to be received in conjunction with providing goods or services". 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.

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 June 30, 2003, there were no amounts owed to current employees of the Company in connection with equity investments received as compensation.

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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.

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 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

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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 June 30, 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.

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 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.

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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 June 30, 2003 the balance of the forgivable loans was \$199,660 of which \$140,000 is classified as current. The remaining long-term portion of \$59,660 is scheduled for forgiveness as follows: \$50,160 in 2004 and \$9,500 in 2005.

3. IMPAIRMENT OF GOODWILL

Management determined that there was no impairment of goodwill during the quarters ended June 30, 2002 and 2003. Goodwill carried on the balance sheet as of June 30, 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.

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,

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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.

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. These 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.

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A summary of the stock option activity for the six months ended June 30, 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	\$0.17	2,400,000	\$0.15 - \$0.20
Cancelled	\$0.43	(1,163,450)	\$0.32 - \$2.25

Outstanding options at June 30, 2003 ...	\$0.38	5,708,214	\$0.15 - \$6.00

A summary of the stock purchase warrant activity for the six months ended June 30, 2003 is as follows:

	Weighted Average Exercise Price	Number of Warrants	Exercise Price Per Option
	-----	-----	-----
Outstanding warrants at December 31, 2002	\$2.15	4,108,499	\$0.35 - \$7.20
Granted	\$0.19	1,250,000	\$0.15 - \$0.20
Cancelled	-	-	-
Outstanding options at June 30, 2003	\$1.69	5,358,499	\$0.15 - \$7.20
		=====	

The following table summarizes information concerning stock options outstanding at June 30, 2003.

Option Price	Options Outstanding
-----	-----
0.15	1,420,000
0.20	1,050,000
0.32	1,225,000
0.35	1,389,215
0.50	100,000
0.55	69,000
0.63	182,500
0.70	39,000
1.00	26,000

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2.25	157,499
4.00	10,000
4.13	20,000
5.00	10,000
6.00	10,000

	5,708,214
=====	

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The following table summarizes information concerning warrants outstanding at June 30, 2003.

Exercise Price	Warrants Outstanding
-----	-----
0.15	250,000
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
-----	-----
	5,358,499
=====	

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 2.44%; no dividend yields; volatility factor of the expected market price of the Company's common stock of 2.776 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 June 30, 2003 was \$363,674. The Company's pro forma basic and diluted net loss per share for the period ended June 30, 2003 was \$0.01. 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.

6. 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 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

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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.

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

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was recently released by the SEC, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 2 to our consolidated financial statements dated December 31, 2002 includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. The following is a brief discussion of the more significant accounting policies and methods used by us.

GENERAL. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

REVENUE RECOGNITION. We earn revenue from brokerage and trading which are recognized on the day of the trade. We also earn revenue from investment banking and consulting. Monthly retainer fees for investment banking and consulting are recognized as earned. Investment banking success fees are generally based on a percentage of the total value of a transaction and are recognized upon successful completion.

We do not require collateral from our customers. Revenues are not concentrated in any particular region of the country or with any individual or group.

We periodically receive equity instruments which include stock purchase warrants and common and preferred stock from companies as part of our compensation for investment-banking services that are classified as investments in trading securities on the balance sheet if still held at the financial reporting date. These instruments are stated at fair value in accordance with SFAS #11 "Accounting for certain investments in debt and equity securities" and EITF 00-8 "Accounting by a grantee for an equity instrument to be received in conjunction with providing goods or services." Primarily all of the equity instruments are received from small public companies. The stock and stock purchase warrants received are typically restricted as to re-sale. Though, the Company generally receives a registration right within one year. Company policy is to sell these securities in anticipation of short-term market movements. We recognize revenue for these stock purchase warrants when received based on the Black Scholes valuation model. On a monthly basis, we recognize unrealized gains or losses in the statement of operations based on the changes in value in the stock purchase warrants as determined by the Black Scholes valuation model. Realized gains or losses are recognized in the statement of operations when the related stock purchase warrant is exercised and sold.

Occasionally, we receive equity instruments in private companies with no readily available market value. Equity interests and warrants for which there is not a

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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 warrants.

Our policy was to distribute equity instruments or proceeds from the sale of equity instruments to our employees as compensation for their investment banking successes. These distributions complied with compensation agreements which varied on a "banker by banker" basis. Accordingly, unrealized gains or losses recorded in the statement of operations related to securities held by us at each period end which ultimately will be distributed to our employees, also impact compensation expense and accrued compensation.

As of June 30, 2003, certain transactions in process may result in us receiving equity instruments or stock purchase warrants in subsequent periods as discussed above. In this event, we will recognize revenue related to the receipt of such equity instruments consistent with the aforementioned policies. In addition, we would also record compensation expense at fair value related to the distribution of some or all of such equity instruments to employees or independent contractors involved with the related transaction.

CLEARING ARRANGEMENT. We do not carry accounts for customers or perform custodial functions related to customers' securities. We introduce all of their customer transactions, which are not reflected in these financial statements, to their respective clearing brokers, which maintain the customers' accounts and clear such transactions. Additionally, our clearing firm provides the clearing and depository operations for our proprietary securities transactions. These activities may expose our broker dealer to off-balance-sheet risk in the event that customers do not fulfill their obligations with the clearing broker, as our broker dealer has agreed to indemnify our clearing firm.

CUSTOMER CLAIMS. In the normal course of business, our operating subsidiaries have been and continue to be the subject of numerous civil actions and arbitrations arising out of customer complaints relating to our activities as a broker-dealer, as an employer and as a result of other business activities. In general, the cases involve various allegations that our employees had mishandled customer accounts. Based on our historical experience and consultation with counsel, we typically reserve an amount we believe will be sufficient to cover any damages assessed against us. However, we have in the past been assessed damages that exceeded our reserves. If we misjudged the amount of damages that may be assessed against us from pending or threatened claims, or if we are unable to adequately estimate the amount of damages that will be assessed against us from claims that arise in the future and reserve accordingly, our operating income would be reduced.

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FAIR VALUE. "Investments in trading securities" and "Securities sold, not yet purchased" on our consolidated balancesheet are carried at fair value or amounts that approximate fair value, with related unrealized gains and losses recognized in our results of operations. The determination of fair value is fundamental to our financial condition and results of operations and, in certain circumstances, it requires management to make complex judgments.

Fair values are based on listed market prices, where possible. If listed market prices are not available or if the liquidation of our positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations. Fair values for certain

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derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions.

Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. Changes in the fixed income and equity markets will impact our estimates of fair value in the future, potentially affecting principal trading revenues. The illiquid nature of certain securities or debt instruments also requires a high degree of judgment in determining fair value due to the lack of listed market prices and the potential impact of the liquidation of our position on market prices, among other factors.

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. Any unregistered securities received generally contain a registration right within one year. Trading account assets, consisting of marketable equity securities and stock purchase warrants, are stated at fair value. 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.

GOODWILL AND OTHER INTANGIBLE ASSETS ("FAS 142"). The provisions of FAS 141 eliminated the pooling-of-interests method of accounting for business combinations consummated after June 30, 2001. We adopted FAS 141 on July 1, 2001 and it did not have a significant impact on our financial position or results of operations. Under the provisions of FAS 142, goodwill and indefinite lived intangible assets are no longer amortized, but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company adopted the new accounting rules, as required, effective January 1, 2002.

The value of the Company's goodwill is exposed to future adverse changes if the Company experiences declines in operating results or experiences significant negative industry or economic trends or if future performance is below historical trends. The Company periodically reviews intangible assets and goodwill for impairment using the guidance of applicable accounting literature. We are subject to financial statement risk to the extent that the goodwill and other intangible assets become impaired.

SIX MONTHS ENDED JUNE 30, 2003 COMPARED TO THE SIX MONTHS ENDED
JUNE 30, 2002

STATEMENTS OF OPERATIONS

Operating revenues were \$9,872,969 for the six months ended June 30, 2003 as compared to \$10,027,356 for the six months ended June 30, 2002 a decrease of \$154,387 or 2%. The primary reason for the decrease was a significant reduction in success fees generated from Investment Banking efforts. The Company has strengthened its efforts in this area by recruiting seasoned, high-level investment bankers.

Cost of revenues were \$6,328,010 for the six months ended June 30, 2003 as compared to \$5,696,915 for the six months ended June 30, 2002 an increase of \$631,095, or 11%. The increase was primarily due to new brokers brought on during the year that required higher commission percentages (payouts). As a consequence, gross profit was \$3,544,959 for the six months ended June 30, 2003

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as compared to \$4,330,441 for the six months ended June 30, 2002, a decrease of \$785,482. The corresponding gross margin was 36% for the six months ended June 30, 2003 as compared to 43% for the six months ended June 30, 2002. The reduced gross margin during the current quarter is also a result of the increased payout percentages to the Company's brokers.

General and administrative expenses were \$3,193,134 for the six months ended June 30, 2003 as compared to \$4,708,840 for the six months ended June 30, 2002, a decrease of \$1,515,706, or 32%. This decrease is primarily related to the Company's cost savings measures including headcount reductions and consolidation of its facility space.

Net gain on trading securities was \$48,369 for the six months ended June 30, 2003 as compared to \$13,468 for the six months ended June 30, 2002, an increase of \$34,901, or 259%. Net gains are a result of the value realized upon the disposition of a particular security.

Professional fees were \$175,142 for the six months ended June 30, 2003 as compared to \$567,198 for the six months ended June 30, 2002, a decrease of \$392,056, or 69%. This decrease was primarily attributable to better utilization of the Company's internal professional staff thereby reducing its reliance on outside consultants.

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The provision for bad debt was \$25,867 for the six months ended June 30, 2003 as compared to \$236,208 for the six months ended June 30, 2002, a decrease of \$210,341, or 89%. The decrease in the provision for bad debt is primarily related to the decrease in consulting and retainer revenues, which historically proved difficult to collect. 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 and arbitration was \$159,257 for the six months ended June 30, 2003 as compared to \$101,109 for the six months ended June 30, 2002, an increase of \$58,148, or 57%. 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 loss on investments held for trading and stock purchase warrants was \$40,155 for the six months ended June 30, 2003, as compared to \$256,024 for the six months ended June 30, 2002. The respective losses were primarily due to decreases in the market value of equity instruments received from various investment banking clients and held by the Company.

Depreciation and amortization was \$58,222 for the six months ended June 30, 2003 as compared to \$148,013 for the six months ended June 30, 2002, a decrease of \$89,791, or 61%. 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 \$55,000 for the six months ended June 30, 2003 as compared to \$144,188 for the six months ended June 30, 2002, a decrease of \$89,188, or 62%. 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 the remaining balance is being reduced over time.

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Stock based compensation was \$15,067 for the six months ended June 30, 2003 as compared to \$0 for the six months ended June 30, 2002, an increase of \$15,067. This amount primarily represents the amortization of deferred 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 related to the consultant was fully recognized as of March 31, 2003. In addition, the Company recently granted warrants to its landlord related to the renegotiation of its lease and this amount is being amortized over the life of the lease.

LIQUIDITY AND CAPITAL RESOURCES

The Company had \$3,117,237 of unrestricted cash at June 30, 2003.

Net cash provided by operating activities for the six months ending June 30, 2003, was \$766,605 as opposed to net cash used in operating activities of (\$1,281,015) for the six months ending June 30, 2002. The increase in cash provided by operating activities is primarily attributable to a significant reduction in the Company's net loss, \$179,336 as of June 30, 2003 versus \$2,114,076 as of June 30, 2002, as well as increases in accounts payable and accrued liabilities and decreases in non-cash fees received.

Net cash used in investing activities for the six months ending June 30, 2003, was \$6,529 as opposed to \$79,446 for the six months ending June 30, 2002. The primary reason for the decrease was that the Company has reduced its headcount and facility space resulting in reduced fixed asset requirements.

Net cash provided by financing activities for the six months ending June 30, 2003, was \$130,000 as opposed to \$1,493,626 for the six months ending June 30, 2002. The decrease 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 little need to increase its external funding since that time.

The Company does, however, anticipate that it may need additional debt or equity financing in order to carry out its long-term business strategy. Such funding may be a result of 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. Such officers have concluded (based upon their evaluation of these controls and procedures as of the end of the period covered by this Quarterly Report) 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.

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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 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 system of controls also is based in part upon certain assumptions about the likelihood of future events, and there 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.

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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, Defendants counterclaimed against the Plaintiffs and also named vFinance Investments, Inc., a wholly-owned subsidiary of the Company, as a counter defendant in such counterclaim. 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 the Plaintiffs and vFinance Investments, Inc. for general, and special and punitive damages in excess of \$30 million. On or about June 10, 2003, vFinance Investments, Inc. filed counterclaims against the Defendants to recover on two unpaid outstanding notes in the aggregate principal amount of \$69,000 plus accrued interest due to vFinance Investments, Inc., to recover legal fees from the Defendants and for defamation against vFinance Investments, Inc. The Company believes the counterclaims against vFinance Investments Inc. are totally without merit. vFinance Investments, Inc. will thus vigorously defend the action and pursue its claims against the Defendants.

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

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(a) EXHIBITS

31.1 - Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of the Company.

31.2 - Rule 13a-15(a)/15d-14(a) Certification of Chief Financial Officer of the Company.

32.1 - Section 1350 Certification by Chief Executive Officer of the Company.

32.2 - Section 1350 Certification by Chief Financial Officer of the Company.

(b) REPORTS ON FORM 8-K

None.

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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)	August 14, 2003
By: /s/ Mark Kacer ----- Mark Kacer	Chief Financial Officer and (Principal Financial and Accounting Officer)	August 14, 2003

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