VFINANCE INC
Form 10QSB
May 15, 2002

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

FORM 10-QSB
(Mark One)

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

For the quarterly period ended MARCH 31, 2002

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	58-1974423
(State or other jurisdiction of incorporation or organization)	(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 [X] No [ ]

State the number of shares outstanding of each of the issuer's classes of common equity, as of March 31, 2002:

23,387,097 shares of Common Stock $0.01 par value

Transitional Small Business Disclosure Format (Check one): Yes [X]; No [ ]

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VFINANCE, INC.

PART I. FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS

The following information provides cautionary statements under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the Reform Act). We identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements we make in this report or in other documents that reference this report. All statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, identified through the use of words or phrases such as we or our management believes, expects, anticipates, hopes, words or phrases such as will result, are expected to, will continue, is anticipated, estimated, projection and outlook, and words of similar import) are not statements of historical facts and may be forward-looking. These forward-looking statements are based largely on our expectations and are subject to a number of risks and uncertainties including, but not limited to, economic, competitive, regulatory, growth strategies, available financing and other factors discussed elsewhere in this report and in the documents filed by us with the Securities and Exchange Commission ("SEC"). Many of these factors are beyond our control. Actual results could differ materially from the forward-looking statements we make in this report or in other documents that reference this report. In light of these risks and uncertainties, there can be no assurance that the results anticipated in the forward-looking information contained in this report or other documents that reference this report will, in fact, occur.

These forward-looking statements involve estimates, assumptions and uncertainties, and, accordingly, actual results could differ materially from those expressed in the forward-looking statements. These uncertainties include, among others, the following: (i), the inability of our broker-dealer operations to operate profitably in the face of intense competition from larger full service and discount brokers; (ii) a general decrease in merger and acquisition activities and our potential inability to receive success fees as a result of transactions not being completed; (iii) increased competition from business development portals; (iv) technological changes; (v) our potential inability to implement our growth strategy through acquisitions or joint ventures; and (vi) our potential inability to secure additional debt or equity financing.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for our management to predict all of such factors, nor can our management asses the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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VFINANCE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31, 2001	March 31, 2002
Assets:		
Cash and cash equivalents	$ 1,826,474	$ 2,693,017
Restricted cash	203,106	203,106
Due from clearing broker	588,222	-
Investments in trading securities	1,077,815	2,610,592
Accounts receivable, net of allowance for doubtful accounts of $63,528 and $123,499, respectively	93,719	277,000
Forgivable loans - employees, current portion	307,452	209,639
Notes receivable - employees, net of allowance for doubtful accounts of $60,550 and $60,550, respectively	107,600	114,600
Prepaid expenses and other current assets	133,085	132,022
Total current assets	4,337,473	6,239,976
Furniture and equipment, at cost:		
Furniture and equipment	940,537	993,247
Internal use software	146,835	158,281
	1,087,372	1,151,528
Less accumulated depreciation	(403,970)	(478,348)
Net furniture and equipment	683,402	673,180
Forgivable loans - employees	577,760	577,760
Goodwill	420,000	420,000
Other assets	387,177	392,247

Total Assets	$ 6,405,812	$ 8,303,163
Liabilities and Shareholders' Equity:		
Accounts payable	$ 1,093,662	$ 1,137,539
Accounts payable - employees	66,407	-
Due to clearing broker	-	579,684
Accrued liabilities	2,319,510	2,301,251
Securities sold, not yet purchased	53,981	132,792
Lines of credit	297,656	297,656
Subordinated promissory notes	650,000	650,000
Notes payable, current portion	750,429	779,492
Capital lease obligations, current portion	12,627	48,731
Other	-	25,416
Total current liabilities	5,244,272	5,952,561
Letter of credit and promissory note	268,500	268,500
Capital lease obligations	56,641	-
Notes payable - long term	-	1,500,000
Series A Convertible Preferred Stock, $0.01 par value; 122,500 shares authorized; 122,500 shares issued and outstanding (liquidation preference of $1,556,050 at December 31, 2001)	1,225	1,225
Series B Convertible Preferred stock, $0.01 par value; 50,000 shares authorized; 50,000 issued and outstanding (liquidation preference of $46,450 at December 31, 2001)	500	500
Common stock, $0.01 par value, 75,000,000 shares authorized; 25,964,395 and 26,398,608 shares issued, and 22,952,885 and 23,387,097 outstanding, respectively	259,644	263,986
Additional paid-in-capital on preferred stock	1,565,775	1,535,150
Additional paid-in-capital on common stock	22,515,699	22,635,107
Deferred compensation	(82,657)	(82,657)
Accumulated deficit	(21,254,359)	(21,601,781)
	3,005,827	2,751,530
Less treasury stock	(2,169,428)	(2,169,428)
Total Shareholders' Equity	836,399	582,102
Total Liabilities and Shareholders' Equity	$ 6,405,812	$ 8,303,163

See accompanying notes

vFINANCE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31	
	2001	2002
Revenues:		
Commissions - agency	$ 1,938,929	$ 2,525,019
Commissions - principal	1,593,963	1,034,365
Success fees	1,768,998	1,604,196
Consulting and retainers	272,800	331,597

Other brokerage related income	-	141,398
Other	313,921	89,256
Total revenues	5,888,611	5,725,831
Cost of revenues:		
Commissions	2,112,741	2,118,315
Clearing and transaction costs	657,338	249,860
Success	651,977	772,420
Consulting and retainers	52,833	7,500
Other	-	9,262
Total cost of revenues	3,474,889	3,157,357
Gross profit	2,413,722	2,568,474
Other expenses:		
General and administrative	2,282,931	2,444,340
Net loss (gain) on trading securities	17,378	(12,652)
Professional fees	332,316	239,277
Provision for bad debts	50,000	60,560
Net unrealized loss (gain) on investments held for trading and stock purchase warrants	794,755	(60,329)
Depreciation and amortization	351,295	73,360
Cost of arbitration actions	80,574	-
Amounts forgiven under forgivable loans	-	74,375
Other	250	-
Total other expenses	3,909,499	2,818,931
Loss from operations	(1,495,777)	(250,457)
Loss on sale of property	(2,108)	194
Interest and dividend income (expense)	118,166	(97,158)
Net loss	(1,379,719)	(347,421)
Less: Preferred stock dividend	-	(30,625)
Loss available to common stockholders	$ (1,379,719)	$ (378,046)
Loss per share:		
Basic	($ 0.07)	($ 0.02)
Weighted average number of common shares used in computing basic loss per share	19,934,299	23,387,097
Diluted	($ 0.07)	($ 0.02)
Weighted average number of common shares used in computing diluted loss per share	19,934,299	23,387,097

See accompanying notes.

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

	Three Months En
	2001
OPERATING ACTIVITIES	
Net loss	$(1,379,719)
Adjustments to reconcile net loss to net cash used in operating activities.	
Non-cash fees received	-
Depreciation and amortization	351,295
Provision for doubtful accounts	50,000
Unrealized loss (gain) on sale of investments, net	497,533
Unrealized loss (gain) on stock purchase warrants	6,500
Loss on sale of investments, net	28,333
Proceeds from sale of investments	-
Amount forgiven under forgiveable loan	252,417
Changes in operating assets and liabilities, net of businesses acquired:	
Accounts receivable	27,991
Foregivable Loans	-
Due from clearing broker	(1,133,459)
Notes receivable from employees	92,445
Investments	(452,624)
Other current assets	109,685
Other assets and liabilities	(339,342)
Accounts payable and accrued liabilities	(89,843)
Securities, sold not yet purchased	70,582
Net cash used in operating activities	(1,908,206)
INVESTING ACTIVITIES	
Purchase of equipment	(184,650)
Purchase of treasury stock, net	12,108
Purchase of businesses	(1,233,335)
Change in other assets	(151,869)
Net cash used in investing activities	(1,557,746)
FINANCING ACTIVITIES	
Changes in capital leases	(8,343)
Changes in current debt	-
Proceeds from credit agreement	-
Proceeds from issuance of common stock related to private placement, net of cash and stock issuance costs	-
Increase in line of credit	63,504
Payment of long term debt	(66,790)
Repayment of shareholder's equity	(50,000)
Net cash provided (used) by financing activities	(61,629)
(Decrease) increase in cash and cash equivalents	(3,527,581)
Cash and cash equivalents at beginning of year	5,454,071
Cash and cash equivalents at end of period	$ 1,926,490

See accompanying notes

vFinance, Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 2002
(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 their equity investments and businesses and the name change reflects the broader scope of services. The Company principally operates in one business segment, investment management services, consisting 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. and manages Critical Infrastructure Fund (BVI) LP through vFinance Advisors, LLC and vFinance Investors, LLC.

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 for the prior year financial statements have been reclassified to conform to the current year presentation.

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 and stock purchase warrants from companies as part of its 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. Primarily all of the equity instruments are received from small public companies. Generally, such stock purchase warrants are considered derivatives. The Company adopted Financial Accounting Standards Board Statement No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, ("SFAS No. 133") on January 1, 2000. The Company recognizes revenue for such stock purchase warrants when received based on the Black Scholes valuation model. On a monthly basis the Company recognizes 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.

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 warrants.

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

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, 2002 and 2001, investments consisted of common and preferred stock and 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.

New Accounting Standards

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS ("FAS 142"). 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 beginning January 1, 2002. Management is currently assessing the financial impact FAS 142 will have on the consolidated financial statements, but does not believe it will not be material.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS ("FAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of APB Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS - REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS , AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS ("APB 30"). The Company adopted the new accounting rules beginning January 1, 2002. Management is currently assessing the financial impact FAS 144 will have on the consolidated financial statements, but does not believe it will be material because the Company wrote off most goodwill at December 31, 2001.

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"), 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 FDIC-insured financial institutions.

Goodwill

The carrying values of goodwill as well as other long-lived assets will be tested annually under FAS 142. If this review indicates that the assets will not in part or fully be recoverable, as determined based on the undiscounted estimated cash flows of the Company, 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.

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.

3. IMPAIRMENT OF GOODWILL

Management determined that, as of December 31, 2001, a write-down of the goodwill related to the NW Holdings acquisition was necessary as the Company's projections of the future operating results of First Level indicated impairment. Based on such projections and other analysis the Company took an impairment charge aggregating $876,000 related to NWH goodwill. Goodwill remaining as of December 31, 2001 and March 31, 2002 totaled $420,000.

4. INCOME TAXES

Deferred income taxes reflect the net income tax effect of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and amounts used for income taxes.

5. 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, 2001, the Company had received $975,000 under the Note Purchase Agreement and may receive, at SBI's option alone, an additional $525,000 no later than June 30, 2002. The note, if and only if fully funded by SBI, is convertible, at SBI's option, into as many as 5,263,158 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 for $1,750,000, canceling the option or forcing the conversion of the note into shares of common stock.

Further, if SBI funds the full amount of the loan, SBI will become a party to an Investor Right Agreement and, as additional consideration the Company will issue to SBI an option to purchase up to that number of shares of its common stock equal to 1,500,000 divided by the average closing bid and ask price of its common stock for the 20 consecutive trading days preceding the date of SBI's exercise notice to the Company, but in no event will the per share price be more than $0.336 or less than $0.23. The Note Purchase Agreement was amended to extended the expiration date of the option past June 30, 2002 as the date for the funding of the third Tranche was extended.

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, TO CERTAIN CONVERTIBLE INSTRUMENTS, the Company recorded a beneficial conversion feature related to the Note Purchase Agreement of $975,000, which is measured as the difference between the effective conversion price of the debt and the fair value into which the Note is convertible. The principal balance of this Note was discounted with a corresponding increase in additional paid-in capital by such amount. The debt discount will be accreted ratably at $60,988 per quarter, over the term of the loan as additional interest expense.

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. 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.

A summary of the stock option activity for the three months ended March 31, 2002 is as follows:

	Weighted Average Exercise Price	Number of Shares	Exercise Price Per Option
Outstanding options at December 31, 2001	$0.98	9,687,050	$0.35 - $6.00
Granted	$0.51	508,117	$0.35 - $2.25
Cancelled	$3.32	100,000	
Outstanding options at March 31, 2002 ..	$0.90	10,095,167	$0.35 - $6.00

A summary of the stock purchase warrant activity for the three months ended March 31, 2002 is as follows:

	Weighted Average Exercise Price	Number of Warrants	Exercise Price Per Option
Outstanding warrants at December 31, 2001	$2.73	3,108,499	$0.35 - $7.20
Granted	-	-	-
Cancelled	-	-	-
Outstanding options at March 31, 2002 ...	$2.73	3,108,499	$0.35 - $7.20

The following table summarizes information concerning stock options outstanding at March 31, 2002.

Option Price	Options Outstanding
0.35	4,733,427
0.63	3,000,000
0.62	200,000
1.00	772,000
2.25	474,740
3.00	210,000
3.25	100,000
4.00	220,000
4.13	30,000
4.25	75,000
4.50	5,000
5.00	260,000
6.00	15,000
	10,095,167

The following table summarizes information concerning warrants outstanding at March 31, 2002.

Exercise Price	Warrants Outstanding
0.35	993,500
0.63	400,000
2.25	585,000
2.50	300,000
6.00	129,999

7.20	700,000
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	3,108,499
	=========

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 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. The Company has not, to date, entered into a transaction that would trigger any repayment. 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.

7. SUBSEQUENT EVENTS

On March 28, 2002, the Company entered into a non-binding Letter of Intent (the "Letter") with Somerset Financial Partners, Inc., ("Somerset") a Delaware corporation to acquire certain of its assets. Through its subsidiaries, Somerset is a registered broker dealer and is engaged other financial services including insurance and mortgage brokerage. The Company has agreed to acquire all brokerage customer and client accounts, advances to registered representatives and certain other selected assets. The Company will assume certain liabilities including selected leases and will hire select salaried personnel and independent contractors. The Company will pay, at closing, 1,500,000 shares of its Common stock and warrants to purchase an additional 500,000 shares of its Common stock at 110% of the current market price. In addition, and based upon certain performance criteria, the Company will pay up to an additional 1,500,000 shares of its Common stock, during the first year after the sale is closed. The Company will also issue up to 1,400,000 options to purchase its Common shares to select Somerset employees who will be joining the Company. Those options will be issued subject to normal vesting and other conditions. There can be no assurance that this transaction will be completed.

In May and June, 2000 Colonial Direct Financial Group, Inc. entered into a total of $650,0000 of subordinated loan agreements with three investors. As of March 31, 2002, these loans were in default. On May 2, 2002 the Company submitted an agreement to one of the Colonial debt holders to convert $150,000 of principal debt plus accrued interest into 402,000 unregistered shares of the Company's common stock.

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

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2001

STATEMENTS OF OPERATIONS

Operating revenues were $5,725,831 for the three months ended March 31, 2002 as compared to $5,888,611 for the three months ended March 31, 2001 a decrease of $162,780 or 3%. The primary reason for the decrease was a decrease in principal commissions on trading revenues.

Cost of revenues were $3,157,357 for the three months ended March 31, 2002 as compared to $3,474,889 for the three months ended March 31, 2001 a decrease of $317,532 or 9%. The decrease was primarily due to costs savings associated with the consolidation of the Company's three broker dealers into a single entity. As a consequence, gross profit was $2,568,474 for the three months ended March 31, 2002 as compared to $2,413,722 for the three months ended March 31, 2001, an increase of $154,752. Gross margin percentage was 45% for the three months ended March 31, 2002 as compared to 41% for the three months ended March 31, 2001.

General and administrative expenses were $2,444,340 for the three months ended March 31, 2002 as compared to $2,282,931 for the three months ended March 31, 2001 an increase of $161,409 or 7%.

Net loss (gain) on trading securities was ($12,652) for the three months ended March 31, 2002 as compared to $17,378 for the three months ended March 31, 2001, a decrease in cost of $30,030. The change was due primarily to an increase in the value of securities from prior periods.

Professional fees were $239,277 for the three months ended March 31, 2002 as compared to $332,316 for the three months ended March 31, 2001, a decrease of $93,039 or 28%. The decrease in cost was primarily attributable to a decreased level of merger activity.

The provision for bad debt was $60,560 for the three months ended March 31, 2002 as compared to $50,000 for the three months ended March 31, 2001, an increase of $10,560 or 21%. 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. Credit losses have not exceeded management's expectations.

The net unrealized loss (gain) on investments held for trading and stock purchase warrants was ($60,329) for the three months ended March 31, 2002, as compared to $794,755 for the three months ended March 31, 2001 a decrease of cost of $855,084. The gain was 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 $73,360 for the three months ended March 31, 2002 as compared to $351,295 for the three months ended March 31, 2001, a decrease of $277,935 or 79%. The decrease was primarily because the Company has adopted FAS 144 that prohibits amortization of goodwill related to acquisitions.

The cost of arbitration actions was $0 for the three months ended March 31, 2002 as compared to $80,574 for the three months ended March 31, 2001 a decrease of $80,574 or 100%. The drop was attributable primarily to the closure of the Company's First Colonial Securities Group broker dealer.

The amount forgiven under forgivable loans was $74,375 for the three months ended March 31, 2002 as compared to $252,417 for the three months ended March 31, 2001. The decrease was attributable to the a decrease in the number of new brokers.

Total other expenses were $2,818,931 for the three months ended March 31, 2002 as compared to $3,909,499 for the three months ended March 31, 2001 a decrease of $1,090,568 or 28%. As a consequence the loss from operations was $250,457 for the three months ended March 31, 2002 as compared to $1,495,777 for the three months ended March 31, 2001 a decrease of $1,245,320 or 83%.

LIQUIDITY AND CAPITAL RESOURCES

The Company had $2,693,017 of unrestricted cash at March 31, 2002.

Net cash used in operating activities for the three months ending March 31, 2002, $701,578 as opposed to net cash used in operating activities of $1,908,206 for the three months ending March 31, 2000. The decrease in net cash used in operating activities was primarily due to a decrease in the net loss from $1,379,719 for the three months ending March 31, 2001 to $378,046 for the three months ended March 31, 2002.

Net cash used in investing activities for the three months ending March 31, 2002, was $64,156 as opposed to net cash used in operating activities of $1,557,746 for the three months ending March 31, 2000. The primary reason for the decrease in net cash used in investing activities was that the Company made no acquisitions in the three months ending March 31, 2002 and decreased purchases of equipment to $64,156 for the three months ending March 31, 2002 from $184,650 for the three months ending March 31, 2001.

Net cash provided in financing activities for the three months ending March 31, 2002, was $1,632,276 as opposed to net cash used in financing activities of $61,629 for the three months ending March 31, 2001. The primary reason for the increase in net cash provided by investing activities was that the Company entered into the agreement described above in 7. DEBT with UBS Paine Webber on January 25, 2002.

The Company anticipates it will 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.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company's inactive subsidiary, Colonial Direct Financial Group, Inc., has $650,000 of subordinated debt in default. The debt was incurred prior to the acquisition of Colonial by the Company in anticipation of an initial public offering by Colonial. The Company has offered the three holders of the subordinated debt to convert their notes issued by Colonial into common stock of the Company. One of the holders has sent a demand letter through her attorney seeking repayment from the Company. The Company has responded that the debt is the obligation of the subsidiary.

Item 2. CHANGES IN SECURITIES

On January 7, 2002 the Company sold 350,878 unregistered shares at a price of $0.285 per share for a total consideration of $100,000 to AMRO International, S.A.

On January 17, 2002 the Company sold 83,334 unregistered shares at a price of $0.285 per share for a total consideration of $23,750 to WorldVentures Fund I, LLC.

The above noted securities issued to the two investors were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder because the securities were acquired in a privately negotiated transaction by sophisticated investors.

During the first quarter of 2002, the Company granted stock options to purchase an aggregate of 508,117 shares of the Company 's common stock to six employees of the Company. The exercise prices of these options range from $.35 to $2.25. 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.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Item 5. OTHER INFORMATION

The Company dismissed its independent auditors, Ernst & Young LLP, on May 10, 2002 to reduce expenses. During the past two fiscal years, Ernst & Young LLP's report on the Company's financial statements for each of the two fiscal years ended December 31, 2000 and 2001 did not contain an adverse opinion or disclaimer of opinion, nor was it modified as to uncertainty, audit scope, or accounting principles. The decision to dismiss Ernst & Young, LLP was recommended and approved by the Board of Directors.

During each of the Company's fiscal years ended December 31, 2000 and 2001 and the interim period preceding the dismissal, there were no disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Ernst & Young LLP, would have caused Ernst & Young LLP to make reference to the subject matter of the disagreements in connection with its reports.

On May 10, 2002, the Company engaged the firm of Feldman, Sherb & Co., P.C. as its new independent auditors. The Company has authorized Ernst & Young LLP to respond fully to the inquiries of Feldman, Sherb & Co., P.C. with regard to any accounting or financial matters relating to the Company.

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

(a) EXHIBITS

Number of Exhibit	Exhibit Description
16.0	Letter from Ernst & Young to the Securities and Exchange Commission dated May 15, 2002

(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)	May 15, 2002
By: /s/ Robert F. Williamson, Jr. Robert F. Williamson, Jr.	Chief Financial Officer (Principal Financial and Chief Accounting Officer)	May 15, 2002

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