

VFINANCE INC  
Form 10-Q  
May 15, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2008**

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

**vFinance, Inc.**

*(Exact Name of Registrant 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, FLORIDA**  
*(Address of Principal Executive Offices)*

**33431**  
*(Zip Code)*

**(561) 981-1000**  
*(Registrant's Telephone Number, Including Area Code)*

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

State the number of shares outstanding of each of the issuer's classes of common equity, as of May 14, 2008: 55,635,066 shares of common stock, par value \$0.01 per share.

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VFINANCE, INC.  
FORM 10-Q  
QUARTERLY PERIOD ENDED MARCH 31, 2008  
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## **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 or hopes and 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 assess 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.

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

**VFINANCE, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
(In thousands, except share and per share data)

	<b>March 31,</b>		<b>December 31,</b>
	<b>2008</b>		<b>2007</b>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 4,686.7	\$	5,454.1
Due from clearing broker	1,024.3		631.0
Securities owned:			
Marketable, at fair value	397.1		817.4
Not readily marketable, at estimated fair value	97.5		451.6
Accounts receivable, net	263.7		155.6
Forgivable loans - employees, current portion	16.9		26.7
Notes receivable - employees	2.1		8.4
Prepaid expenses and other current assets	140.2		156.4
Total current assets	6,628.5		7,701.2
Property and equipment, net	808.7		800.8
Customer relationships, net	3,080.6		3,287.6
Other assets	503.4		580.0
Total assets	\$ 11,021.2	\$	12,369.6
Liabilities and shareholders' equity:			
Current liabilities:			
Accounts payable	\$ 842.9	\$	693.9
Accrued compensation	2,642.5		3,305.6
Other accrued liabilities	1,339.1		1,548.1
Securities sold, not yet purchased	55.8		177.4
Capital lease obligations, current portion	240.2		247.0
Other	199.0		272.3
Total current liabilities	5,319.5		6,244.3
Capital lease obligations, long term	298.3		297.5
Shareholders' Equity:			
Common stock \$0.01 par value, 100,000,000 shares authorized			
55,335,066 and 54,829,876 shares issued and outstanding	553.4		548.3
Additional paid-in capital	31,859.1		31,668.3
Accumulated deficit	(27,009.1)		(26,388.8)
Total shareholders' equity	5,403.4		5,827.8
Total liabilities and shareholders' equity	\$ 11,021.2	\$	12,369.6

See accompanying notes to unaudited condensed consolidated financial statements.

**VFINANCE, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
		<b>(Restated and Revised)</b>
<b>REVENUES:</b>		
Commissions - agency	\$ 5,949.4	\$ 5,629.2
Trading profits	3,039.3	3,596.3
Success fees	1,033.7	1,619.2
Other brokerage related income	1,178.1	1,152.9
Consulting fees	140.8	18.5
Other	227.0	24.1
Total revenues	11,568.3	12,040.2
Compensation, commissions and benefits	9,890.9	9,662.6
Clearing and transaction costs	1,000.7	1,104.1
General and administrative costs	681.4	656.7
Occupancy and equipment costs	305.0	240.7
Depreciation and amortization	324.9	318.4
Total operating costs	12,202.9	11,982.5
Income (loss) from operations	(634.6)	57.7
Other income (expenses):		
Interest income	19.3	14.6
Interest expense	(21.0)	(18.3)
Dividend income	1.2	3.4
Other income, net	14.8	1.4
	14.3	1.1
Income (loss) before income taxes	(620.3)	58.8
Income tax benefit (provision)	-	-
Net income (loss)	(620.3)	58.8
Net income (loss) per share: basic	\$ (0.01)	\$ 0.00
Weighted average number of shares outstanding: basic	55,007.5	54,729.9
Net income (loss) per share: diluted	\$ (0.01)	\$ 0.00
Weighted average number of shares outstanding: diluted	55,007.5	56,275.1

See accompanying notes to unaudited condensed consolidated financial statements.

**VFINANCE, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(In thousands)

	<b>Common Stock Shares</b>	<b>Common Stock Amount</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Deficit</b>	<b>Total Shareholders' Equity</b>
Balance at December 31, 2007	54,829.9	\$ 548.3	\$ 31,668.3	\$ (26,388.8)	\$ 5,827.8
Net loss	-	-	-	(620.3)	(620.3)
Exercise of common stock warrants	505.2	5.1	70.6	-	75.7
Stock-based compensation expense	-	-	120.2	-	120.2
Balance at March 31, 2008	55,335.1	\$ 553.4	\$ 31,859.1	\$ (27,009.1)	\$ 5,403.4

See accompanying notes to unaudited condensed consolidated financial statements.

**VFINANCE, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	
	<b>(Restated and</b>	
	<b>2008</b>	<b>Revised)</b>
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (620.3)	\$ 58.8
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Non-cash fees received	(100.3)	(237.0)
Non-cash compensation paid	58.6	147.6
Depreciation and amortization	324.9	318.4
Stock-based compensation	120.2	113.1
Provision for doubtful accounts	-	-
Amounts forgiven under forgivable loans	9.8	18.0
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(108.1)	4.9
Forgivable loans	-	(23.4)
Due from clearing broker	(393.3)	(307.3)
Notes receivable - employees	6.3	27.2
Investments in marketable securities	420.3	(681.8)
Investments in not readily marketable securities	359.0	(8.2)
Other current assets	16.2	69.9
Other assets and liabilities, net	3.3	(45.8)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(686.3)	811.7
Securities sold, not yet purchased	(121.6)	862.8
Cash provided by (used in) operating activities	(711.3)	1,128.9
<b>CASH USED IN INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(53.0)	(23.0)
Cash used in investing activities	(53.0)	(23.0)
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>		
Repayments of capital lease obligations	(78.8)	(62.7)
Proceeds from exercises of warrants	75.7	-
Cash used in financing activities	(3.1)	(62.7)
Increase (decrease) in cash and cash equivalents	(767.4)	1,043.2
Cash and cash equivalents at beginning of period	5,454.1	4,205.2
Cash and cash equivalents at end of period	\$ 4,686.7	\$ 5,248.4

See accompanying notes to unaudited condensed consolidated financial statements.

**VFINANCE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except per share data)**

**1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

vFinance, Inc. (the "Company") is a financial services company that specializes in high growth opportunities. Its three principal lines of business are: (1) offering full service retail brokerage to approximately 12,000 high net worth and institutional clients, (2) providing investment banking, merger, acquisition and advisory services to micro, small and mid-cap high growth companies, and (3) trading securities, including making markets in over 3,500 micro and small cap stocks and providing liquidity in the United States Treasury marketplace. In addition to the Company's core business, it offers information services on its website. vFinance Investments, Inc. ("vFinance Investments") and EquityStation, Inc. ("EquityStation"), both subsidiaries of the Company, are broker-dealers registered with the Securities and Exchange Commission ("SEC"), and members of Financial Industry Regulatory Authority ("FINRA") (formerly the National Association of Securities Dealers) and Securities Investor Protection Corporation ("SIPC"). vFinance Investments is also a member of the National Futures Association ("NFA").

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts have been eliminated in consolidation.

The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. 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, 2008 are not necessarily indicative of the results to be expected for the year ended December 31, 2008. The interim financial statements should be read in connection with the audited financial statements and footnotes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

***Reclassifications***

Certain items in the 2007 unaudited condensed consolidated financial statements have been reclassified to conform to the presentation in the 2008 unaudited condensed consolidated financial statements. Such reclassifications did not have a material impact on the presentation of the overall financial statements.

**Restatement**

As previously described in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, the Company restated its financial statements to change how marketable securities received as compensation for investment banking services were reflected in its financial statements. Additionally, as previously described in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, the Company revised its financial statements to remove the effects of a policy under which the Company reduced the market value of investments in restricted stock by 25% to reflect such restrictions.

The net effect of the restatements on the Company's statement of operations for the three months ended March 31, 2007 was as follows:

	As Reported - Three Months Ended March 31, 2007	Net Effect of Restate- ments	Restated
<b>Statement of Operations:</b>			
Success fees	\$ 1,598.2	21.0	\$ 1,619.2
Total revenues	\$ 12,019.2	21.0	\$ 12,040.2
Income from operations	\$ 36.7	21.0	\$ 57.7
Income before income taxes	\$ 37.8	21.0	\$ 58.8
Net income	\$ 37.8	21.0	\$ 58.8