VFINANCE INC
Form 10QSB
May 17, 2004

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, 2004

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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Actof 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 (x) No ( )

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b of the Exchange Act). Yes ( ) No (x)

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of May 1, 2004:

33,295,869 shares of Common Stock $0.01 par value

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VFINANCE, INC.

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)

		March 31, 2004
Assets:		
Current Assest:		
Cash and cash equivalents	$	4,960,812
Due from clearing broker		111,143
Investments in trading securities		969,581
Accounts receivable, net of allowance for doubtful accounts		239,805
Forgivable loans-employees, current portion		65,508
Notes receivable-employees, net of allowance for doubtful accounts		72,465
Deferred tax asset		400,000
Prepaid expenses and other current assets		91,483
Total current assets		6,910,797
Furniture and equipment, at cost:		
Furniture and equipment		486,577
Internal use software		158,500
		645,077
Less accumulated depreciation		(446,896)

Net furniture and equipment		198,181
Goodwill		420,000
Other assets		205,844
Total Assets	$	7,734,822
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable	$	1,336,283
Accrued payroll		1,750,167
Other accrued liabilities		406,875
Securities sold, not yet purchased		170,788
Notes payable		28,500
Other		12,034
Total current liabilities		3,704,647
Shareholders' Equity:		
Series A Convertible Preferred Stock $0.01 par value, 122,500 shares authorized, 0 shares issued and outstanding		-
Series B Convertible Preferred Stock $0.01 par value, 50,000 shares authorized, 0 shares issued and outstanding		-
Common stock $0.01 par value, 75,000,000 shares authorized, 33,195,869 issued and outstanding		331,963
Additional paid-in-capital on common stock		25,168,042
Deferred compensation		(23,382)
Accumulated deficit		(21,446,448)
Total Shareholders' Equity		4,030,175
Total Liabilities and Shareholders' Equity	$	7,734,822

See accompanying notes.

vFINANCE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Revenues:		
Commissions - agency	$ 4,100,189	$ 2,254,762
Trading Profits	1,572,753	763,861

Success Fees	1,280,888	211,278
Consulting and retainers	70,327	147,993
Other brokerage related income	680,381	288,263
Other	108,033	112,452
Total revenues	7,812,571	3,778,609
Cost of revenues:		
Commissions	4,325,680	1,915,432
Clearing and transaction costs	145,409	174,007
Success	620,591	66,051
Consulting and retainers	50,545	49,207
Other	4,087	4,759
Total cost of revenues	5,146,312	2,209,456
Gross profit	2,666,259	1,569,153
Other expenses:		
General and administrative	1,820,065	1,586,765
Net loss on trading securities	-	2,728
Professional fees	56,587	80,212
Provision for bad debt	75,446	-
Legal litigation	156,098	65,242
Depreciation and amortization	29,175	29,046
Amounts forgiven under forgivable loans	21,250	27,500
Stock based compensation	1,324	12,420
Total other expenses	2,159,945	1,803,913
Income/(Loss) from operations	506,314	(234,760)
Gain on forgiveness of debt	1,500,000	-
Interest expense, net of income	(262,520)	(27,202)
Pre-tax Net Income/(Loss)	1,743,794	(261,962)
Income tax benefit	400,000	-
Net Income/(Loss) available to common shareholders	$ 2,143,794	$ (261,962)
Net Income/(Loss) per share:		
Basic	$ 0.07	$ (0.01)
Weighted average number of common shares used in computing basic net income/(loss) per share	31,160,844	28,868,237

Diluted	$ 0.06	$ (0.01)
Weighted average number of common shares used in computing diluted net income/(loss) per share	35,434,387	28,868,237

See accompanying notes.

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

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
OPERATING ACTIVITIES		
Net income/(loss)	$ 2,143,794	$ (261,962)
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:		
Non-cash fees received	(300,417)	(20,297)
Gain on forgiveness of debt	(1,500,000)	-
Income tax benefit	(400,000)	-
Depreciation and amortization	29,176	29,045
Provision for doubtful accounts	75,446	-
Non-cash compensation	215,585	-
Conversion premium expense	231,625	-
Accretion of debt discount	18,348	18,348
Unrealized gain on investments, net	(57,063)	(86,368)
Unrealized loss on warrants	115,550	14,360
Amount forgiven under forgivable loans	21,250	27,500
Stock based compensation	1,324	12,420
Changes in operating assets and liabilities:		
Accounts receivable	(126,474)	(21,704)
Due from clearing broker	58,486	182,129
Notes receivable - employees	109,494	49,713
Investments in trading securities	87,180	241,055
Other current assets	-	14,229
Other assets and liabilities	(4,012)	1,550
Accounts payable and accrued liabilities	402,122	(445,550)
Securities, sold not yet purchased	87,008	5,575
Net cash provided by (used in) operating activities	1,208,422	(239,957)
INVESTING ACTIVITIES		
Purchase of equipment	(31,424)	-
Net cash used in investing activities	(31,424)	-

FINANCING ACTIVITIES		
Proceeds from issuance of common stock related to private placement	-	130,000
Net cash provided by financing activities	-	130,000
Increase (decrease) in cash and cash equivalents	1,176,998	(109,957)
Cash and cash equivalents at beginning of year	3,783,814	2,227,160
Cash and cash equivalents at end of period	$ 4,960,812	$ 2,117,203

See accompanying notes.

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vFinance, Inc.
Notes to Consolidated Financial Statements March 31, 2004
(Unaudited)

1. DESCRIPTION OF BUSINESS

vFinance, Inc. is a holding company engaged in the financial information services business through our web site www.vfinance.com, and through our principal operating subsidiary, vFinance Investments, Inc. which is a broker-dealer licensed to conduct business in all 50 states and the District of Columbia. We provide retail and institutional securities brokerage, investment banking and research services. We are committed to the financial services industry where our strategic focus is on servicing the needs of high net-worth and institutional investors and high growth companies.

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.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three-month period ended March 31, 2004 are not necessarily indicative of the results to be expected for the year ended December 31, 2004. 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, 2003.

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.

Net operating loss carryforwards totaled approximately $11,000,000 at December 31, 2003. During the quarter the Company weighed the available positive and negative evidence and determined that a portion of the income tax benefit from the net operating loss carryforwards was realizable. As a result the Company recorded a $400,000 deferred tax asset.

3. IMPAIRMENT OF GOODWILL

Management determined that there was no impairment of goodwill during the quarters ended March 31, 2003 and 2004. Goodwill carried on the balance sheet as of March 31, 2004 was $420,000. The Company evaluates the recoverability and carrying value of its Goodwill and long-lived assets at each balance sheet date, based on guidance issued in SFAS no. 144, "Accounting for the impairment or Disposal of Long-Lived Assets." Among other factors considered in such evaluation is the historical and projected operating performance of business operations, the operating environment and business strategy, competitive information and market trends.

4. SHAREHOLDERS' EQUITY

During February and March of 2004, $721,500 of the SBI Note was converted into 3,344,298 shares of the Company's common stock. Of this amount, $545,000 was converted into 2,725,000 shares of the Company's common stock at a discounted rate of $0.20 per share under a special arrangement offered by the Company to encourage further equity participation by SBI, which resulted in a $231,625 conversion premium expense. The remainder was converted at the stated conversion rate of $0.285 per share.

In accordance with EITF Issue No. 00-27, (APPLICATION OF ISSUE NO. 98-5), ACCOUNTING FOR CONVERTIBLE SECURITIES WITH BENEFICIAL CONVERSION FEATURES OF CONTINGENTLY ADJUSTABLE CONVERSION RATIOS, IN CERTAIN CONVERTIBLE INSTRUMENTS, and APB #21 (INTEREST ON RECEIVABLES AND PAYABLES) the Company recorded an imputed interest factor related to the Note Purchase Agreement of $563,000 at the origination of the Note. 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 was accreted ratably over the term of the loan as additional interest expense. Amortization of the imputed interest began in January 2002.

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As of March 31, 2004, the imputed interest had been fully amortized and the note payable to SBI was $28,500. In April of 2004, the remaining balance was converted into 100,000 shares of common stock of the Company at the original stated conversion rate of $.285 per share.

A summary of the stock option activity for the three months ended March 31, 2004 is as follows:

Weighted

	Average Exercise Price	Number of Shares	Exercise Price Per Option
Outstanding options at December 31, 2003	$0.20	10,346,211	$0.15 - $6.00
Granted................................	$0.21	1,625,000	$0.20 - $0.28
Cancelled	$0.23	(135,000)	$0.15 - $0.32
Outstanding options at March 31, 2004..	$0.28	11,836,211	$0.15 - $6.00

A summary of the stock purchase warrant activity for the three months ended March 31, 2004 is as follows:

	Weighted Average Exercise Price	Number of Warrants	Exercise Price Per Option
Outstanding warrants at December 31, 2003	$1.70	5,398,499	$0.15 - $7.20
Granted	-	-	-
Cancelled	-	-	-
Outstanding options at March 31, 2004....	$1.70	5,398,499	$0.15 - $7.20

The following table summarizes information concerning stock options outstanding at March 31, 2004.

Option Price	Options Outstanding
0.15	1,415,000
0.20	2,455,000
0.21	4,765,997
0.22	50,000
0.25	5,000
0.28	70,000
0.32	1,130,000
0.35	1,389,215
0.50	100,000
0.55	69,000
0.63	142,500
0.70	39,000
1.00	18,000
2.25	157,499
4.00	10,000
5.00	10,000
6.00	10,000
	11,836,211

The following table summarizes information concerning warrants outstanding at March 31, 2004.

Exercise Price	Warrants Outstanding
0.15	250,000
0.20	1,000,000
0.35	1,993,500
0.63	400,000
2.25	625,000
2.50	300,000
6.00	129,999
7.20	700,000
	5,398,499

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 2004 risk free interest rates of 3.95%; no dividend yields; volatility factor of the expected market price of the Company's common stock of 2.1 for options and warrants and an expected life of the options and warrants of 4-5 years. The Company's pro forma net income for the period ended March 31, 2004 was $2,095,477. The Company's pro forma basic and diluted net loss per share for the period ended March 31, 2004 was $0.02 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 had a term of 4 years, was required to be repaid in full by January 2005, and accrued 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.

Under the Credit Agreement, the Company was required to make early repayments if it acquired a new broker dealer firm, entered a new line of business, or hired more than 4 brokers in a single or related transaction. This repayment is made by adding $1.00 to the cost of each incremental clearing transaction the Company makes through CSC, a wholly owned subsidiary of Paine Webber which is a wholly owned subsidiary of UBS. All determinations as to required early repayment were 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.

During March, 2004, the Company entered into an agreement with a new clearing firm; National Financial Services LLC, Member NYSE/SIPC, a Fidelity Investments company ("NFS"). In connection with this agreement NFS agreed to pay, on vFinance's behalf, the $1,500,000 that the Company owed to UBS under UBS's revolving credit facility. The amount was paid to UBS by NFS in March 2004. The new clearing agreement also required NFS to provide the Company with $200,000 to assist the Company with the transition. This amount was paid to vFinance in March 2004 and is included in the statements of operations as a reduction to clearing and transaction costs. The clearing agreement provides for a termination fee in the event the Company terminates the agreement prior to the end of the original five year term. The termination fee is $1,700,000 if the agreement is canceled during the first year of the agreement and is reduced ratably over the term of the agreement. The Company began clearing through NFS during May 2004.

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

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was 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 December 31, 2003 consolidated financial statements 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 resale, 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. The revenue recognized related to other equity instruments is determined based on available market information, discounted by a factor reflective of the expected holding period for those particular equity instruments. 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 and other equity instruments. Realized gains or losses are recognized in the statement of operations when the related stock purchase warrant or other equity instrument is 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 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.

On occasion, we distribute equity instruments or proceeds from the sale of equity instruments to our employees as compensation for their investment banking successes. These distributions comply with compensation agreements which vary 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 may also impact compensation expense and accrued compensation.

As of March 31, 2004, 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.

NET CAPITAL REQUIREMENT. As of March 31, 2004, the minimum amount of net capital required to be maintained by vFinance Investments, Inc. was $1,000,000.

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.

STOCK BASED COMPENSATION. Upon the consummation of an advisory, consulting, capital or other similar transactions the Company may distribute equity instruments or proceeds from the sale of equity instruments to its employees. These distributions are made at the Company's discretion on a case by case basis as determined by the role of the employee and the nature of the transaction. At March 31, 2004 and 2003, no amounts were owed to employees of the Company in connection with equity investments received as compensation.

FAIR VALUE. "Investments in trading securities" and "Securities sold, not yet purchased" on our consolidated balance sheet 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, discounted by a factor reflective of the expected holding period for a particular equity instrument. 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 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 underlying shares of a stock purchase warrant or other equity instruments 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 exchange, discounted by a factor reflective of the expected holding period for the particular equity instrument.

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.

THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2003

STATEMENTS OF OPERATIONS

Operating revenues were $7,812,571 for the three months ended March 31, 2004 as compared to $3,778,609 for the three months ended March 31, 2003, an increase of $4,033,962 or 106%. The primary reason for the improvement was a significant increase in retail brokerage revenues (83%), classified as Commissions-agency, as well as increases in Trading Profits (112%) and Investment Banking revenues (276%). Overall, the Company believes that the increase in its operating revenues was a result of its successful recruiting strategies combined with a comparatively favorable market environment. Although the Company has recently experienced four (4) consecutive quarters of record revenues, it does not necessarily believe that this is a trend and such favorable results are largely dependent on the continuation of a favorable market environment.

Cost of revenues were $5,146,312 for the three months ended March 31, 2004 as compared to $2,209,456 for the three months ended March 31, 2003, an increase of $2,936,856, or 133%. The increase was primarily due to increased revenues and the corresponding increase to commissions as well as the Company's transition to an Independent Contractor (I/C) based retail sales model, as opposed to an employee based model. I/Cs require higher payouts than employees as they are relatively self supporting, independent businesses. The move to the I/C business model had a corresponding benefit as it reduced the firm's general and administrative expenses, as a percentage of revenues (see below). As a consequence, gross profit was $2,666,259 for the three months ended March 31, 2004 as compared to $1,569,153 for the three months ended March 31, 2003, an increase of $1,097,106. The corresponding gross margin was 34% for the three months ended March 31, 2004 as compared to 42% for the three months ended March 31, 2003. The reduced gross margin during the current quarter is also reflective of the increased payout percentages to the Company's Independent Contractors.

General and administrative expenses were $1,820,065 for the three months ended March 31, 2004 as compared to $1,586,765 for the three months ended March 31, 2003, an increase of $233,300, or 15%. Although general and administrative expenses increased, they decreased significantly as a percentage of revenues, 23% at March 31, 2004 as compared to 43% at March 31, 2003. This decrease as a percentage of revenues is primarily related to the Company's transition to an I/C based retail sales model, as opposed to an employee based model. This transition results in reduced general and administrative expenses; however, as mentioned above, it also results in higher payouts to I/Cs which reduces the Company's gross margin. In addition, the Company implemented cost savings measures including headcount reductions and consolidation of its facility space.

Professional fees were $56,587 for the three months ended March 31, 2004 as compared to $80,212 for the three months ended March 31, 2003, a decrease of $23,625, or 29%. This decrease was primarily attributable to better utilization of the Company's internal professional staff thereby reducing its reliance on outside consultants.

The provision for bad debt was $75,446 for the three months ended March 31, 2004 as compared to $0 for the three months ended March 31, 2003. The increase in the provision for bad debt is primarily related to a reserve for approximately $60,000 related to receivables from former employees. While collection is uncertain, the Company is vigorously pursuing these matters.

Litigation expense was $156,098 for the three months ended March 31, 2004 as compared to $65,242 for the three months ended March 31, 2003, an increase of $90,856, or 139%. As is typical in the industry, customers make claims regarding the Company's actions and the Company defends itself vigorously against such claims. The Company's cost of defending itself varies quarter-to-quarter depending on the volume of claims which are in process at any given time.

Depreciation and amortization was $29,175 for the three months ended March 31, 2004 as compared to $29,046 for the three months ended March 31, 2003, an increase of $129, or 0%. Although the Company has been growing, its depreciation and amortization remained virtually unchanged as many of its fixed assets became fully depreciated and were 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 $21,250 for the three months ended March 31, 2004 as compared to $27,500 for the three months ended March 31, 2003, a decrease of $6,250, or 23%. 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.

Stock based compensation was $1,324 for the three months ended March 31, 2004 as compared to $12,420 for the three months ended March 31, 2003, a decrease of $11,096, or 89%. The amount expensed in March 31, 2003, primarily represents the amortization of deferred compensation to an outside consultant who was granted options from the Company in return for his services the third quarter of 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.

Income from operations was $506,314 for the three months ended March 31, 2004 as compared to a loss from operations of $234,760 for the three months ended March 31, 2003, an increase of $741,074. This increase was primarily attributable to significantly increased revenues somewhat offset by a reduced gross margin and increased operating expenses.

During March 2004, the Company entered into an agreement with a new clearing firm; National Financial Services LLC, Member NYSE/SIPC, a Fidelity Investments company ("NFS"). In connection with this agreement NFS agreed to pay, on vFinance's behalf, the $1,500,000 that the Company owed to UBS under UBS's revolving credit facility. The amount was paid to UBS by NFS in March 2004. This transaction was included in the statement of operations as "Gain on forgiveness of debt."

Interest expense, net of income was $262,520 for the three months ended March 31, 2004 as compared to $27,202 for the three months ended March 31, 2003, an increase of $235,318. This increase was primarily attributable to the conversion of certain debt to equity and the related conversion premium expense. During February and March of 2004, $721,500 of the SBI Note was converted into

3,344,298 shares of the Company's common stock. Of this amount, $545,000 was converted into 2,725,000 shares of the Company's common stock at a discounted rate of $0.20 per share under a special arrangement offered by the Company to encourage further equity participation by SBI. This resulted in a $231,625 conversion premium expense.

During the current quarter, the Company weighed the available positive and negative evidence and determined that a portion of the tax benefit of its net operating loss carryforwards was realizable. As a result the Company recorded a $400,000 income tax benefit.

Net income was $2,143,794 for the three months ended March 31, 2004 as compared to a net loss of $261,962 for the three months ended March 31, 2003, an increase of $2,405,756. The increase in net income was primarily attributable to the increase in income from operations combined with the net benefit generated from the gain on forgiveness of debt and the realization of an income tax benefit.

LIQUIDITY AND CAPITAL RESOURCES

The Company had $4,960,812 of unrestricted cash at March 31, 2004.

Net cash provided by operating activities for the three months ending March 31, 2004, was $1,208,422 as opposed to net cash used in operating activities of $239,957 for the three months ending March 31, 2003. The increase in cash provided by operating activities is primarily attributable to a significant improvement to the Company's net income offset by the forgiveness of debt in the amount of $1,500,000. The Company's year-to-date net income as of March 31, 2004 was $2,143,794 which represents a substantial increase from the year-to-date net loss of $261,962 as of March 31, 2003. In addition, the Company's accounts payable and accrued liabilities increased significantly from the prior year while its non-cash fees received increased.

Net cash used in investing activities for the three months ending March 31, 2004, was $31,424 as opposed to $0 for the three months ending March 31, 2003. This increase was a result of the Company's recent enhancements to its computer systems.

The Company believes that its cash on hand is sufficient to meet its working capital requirements over the next 12 months. However, the Company anticipates 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 affected by the overall performance of the U.S. economy and to some extent reliant on the continued execution of the Company's mergers and acquisitions strategy and related financings.

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.

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 their can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time the Company, and/or one of its subsidiaries, is named as a party to a lawsuit that has arisen in the ordinary course of business. Although it is possible that losses exceeding amounts already recorded may be incurred upon ultimate resolution of these existing legal proceedings, we believe that such losses, if any, will not have a material adverse effect on our business, results of operations or financial position; however, unfavorable resolution of each matter individually or in the aggregate could affect the consolidated results of operations for the quarterly and annual periods in which they are resolved.

The business of vFinance Investments involves substantial risks of liability, including exposure to liability under federal and state securities laws in connection with the underwriting or distribution of securities and claims by dissatisfied custiomers for fraud, unauthorized trading, churning, mismanagement and breach of fiduciary duty. In recent years, there has been an increasing incidence of litigation involving the securities industry, including class actions that generally seek rescission and substantial damages.

In the ordinary course of business, the Company and/or its subsidiaries may be parties to other legal proceedings and regulatory inquiries, the outcome of which, either singularly or in the aggregate, is not expected to be material. There can be no assurance however that any sanctions will not have a material adverse effect on the financial condition or results of operations of the Company and/or its subsidiaries.

Item 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

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 had the option to 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 was convertible, at SBI's option, into as many as 3,421,053 shares of the Company's common stock at $0.285 per share. The Company, at any time during the first three years of the agreement, could 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.

During February and March of 2004, $721,500 of the SBI Note was converted into 3,344,298 shares of the Company's common stock. Of this amount, $545,000 was converted into 2,725,000 shares of the Company's common stock at a discounted rate of $0.20 per share under a special arrangement offered by the Company to encourage further equity participation by SBI. The remainder was converted at the stated conversion rate of $0.285 per share. The issuance of the common stock was exempt from registration pursuant to Section 4 (2) of the Securities Act of 1933, as amended, because the common stock was acquired in a privately negotiated transaction by sophisticated investors.

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

(a) EXHIBITS

31.1 - Certification by Chief Executive Officer pursuant to Section 302 of the

Sarbanes-Oxley Act of 2002.

31.2 - Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

(b) REPORTS ON FORM 8-K

Form 8-K filed on March 30, 2004 pursuant to Item 12 thereof.

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 17, 2004
By: /s/ Mark Kacer	Chief Financial Officer and (Principal Financial and	May 17, 2004

Mark Kacer   Accounting Officer)