VFINANCE INC
Form 10-Q
November 14, 2006

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2006

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) has filed all reports required to be filed by Section 13 or 15(d) of the 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 [X] No [ ]

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

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of November 9, 2006: 53,126,133 shares of Common Stock $0.01 par value

vFinance, Inc.
FORM 10-Q
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

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FORWARD-LOOKING STATEMENTS

This Form 10-Q for vFinance, Inc. (the "Company") includes statements that may constitute "forward-looking" statements, usually containing the words "believe", "estimate", "intend", "expect", or similar expressions. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, the inability of our broker-dealer operations to operate profitably in the face of intense competition from larger full service and discount brokers, a general decrease in merger and acquisition activities and our potential inability to receive success fees as a result of transactions not being completed, our potential inability to implement our growth strategy through acquisitions or joint ventures, our potential inability to secure additional debt or equity financing to support our growth strategies and other risks detailed in the Company's periodic report filings with the Securities and Exchange Commission.

By making these forward-looking statements, the Company undertakes no obligation to update these statements for revisions or changes after the date of this Form 10-Q.

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vFinance, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

Assets:	September 30, 2006 (Unaudited)	(Decembe
Current Assets:		
Cash and cash equivalents	$ 4,682,253	$
Due from clearing broker	819,813	
Investments in trading securities	887,791	
Accounts receivable less allowance for doubtful accounts	256,679	
Notes receivable - employees	152,017	
Prepaid expenses and other current assets	118,158	
Total current assets	6,916,711	
Furniture and equipment, at cost:		
Furniture and equipment	1,649,935	
Software	206,781	
	1,856,716	
Less accumulated depreciation	(1,143,600)	
Furniture and equipment, net	713,116	
Intangible assets, net of amortization	4,377,393	
Other assets	541,610	
Total assets	$ 12,548,830	$
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	$ 587,640	
Accrued payroll	2,164,551	
Other accrued liabilities	662,523	
Securities sold, not yet purchased	206,932	
Capital lease obligations	239,411	
Other	160,199	
Total current liabilities	4,021,256	
Capital lease obligations, long term	154,688	
Stockholders' equity:		
Common stock $0.01 par value, 75,000,000 shares authorized, 53,126,133 and 40,126,133 shares issued and outstanding	531,265	
Additional paid-in-capital	30,450,853	2
Accumulated deficit	(22,609,232)	(2
Total stockholders' equity	8,372,886	

Total liabilities and stockholders' equity	$ 12,548,830	$

See accompanying notes to unaudited consolidated financial statements.

vFinance, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine
Revenues:	2006 (Unaudited)	2005 (Unaudited)	2006 (U
Commissions - agency	$ 4,849,901	$ 4,037,698	$ 1
Trading profits	2,794,541	938,700	
Success fees	1,000,201	741,683	
Other brokerage related income	847,947	686,639	
Consulting fees	44,673	85,500	
Other	8,273	103,576	
Total revenues	9,545,536	6,593,796	2
Interest expense	14,315	9,941	
Net revenues	9,531,221	6,583,855	2
Operating expenses:			
Compensation, commissions and benefits	7,524,219	5,093,632	2
Clearing and transactions costs	1,025,803	749,836	
General and administrative costs	660,143	588,478	
Occupancy and equipment costs	335,524	185,275	
Depreciation and amortization	346,870	82,611	
Stock based compensation	117,266	16,765	
Total operating expenses	10,009,825	6,716,597	2
Loss from operations	(478,604)	(132,742)	
Income tax benefit (provision)	-	-	
Net loss	$ (478,604)	$ (132,742)	$
Net loss per share: basic and diluted	$ (0.01)	$ (0.00)	
Weighted average number of shares outstanding: basic and diluted	53,126,133	40,123,134	4

See accompanying notes to unaudited consolidated financial statements.

vFinance, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2006 (Unaudited)	2005 (Unaudited)
Cash flows from operating activities:		
Net loss	$ (656,025)	$ (356,735)
Adjustments to reconcile net loss to net cash provided (used) in operating activities:		
Non-cash fees received	(867,299)	(434,011)
Depreciation and amortization	753,926	217,410
Provision for doubtful accounts	10,000	59,490
Non-cash compensation	-	158,060
Impairment expense	-	80,000
Unrealized loss (gain) on investments, net	253,444	(14,342)
Unrealized loss (gain) on warrants	(54,414)	118,768
Amount forgiven under forgivable loans	-	6,597
Imputed interest	(1,983)	-
Stock based compensation	353,295	19,412
Changes in operating assets and liabilities:		
(Increase) decrease		
Accounts receivable	(27,622)	(220,653)
Forgivable loans	(47,083)	-
Due from clearing broker	(170,043)	24,137
Notes receivable - employees	(51,929)	(49,312)
Investments in trading securities	608,265	600,455
Other current assets	-	12,795
Other assets and liabilities	295,073	85,177
Increase (decrease)		
Accounts payable and accrued liabilities	172,343	(453,945)
Securities, sold not yet purchased	164,510	(285,632)
Net cash provided by (used in) operating activities	734,458	(432,329)
Cash flows from investing activities:		
Purchase of capital lease equipment	(132,023)	(367,952)
Purchase of equipment	(166,923)	(83,783)
Investment in unconsolidated affiliate	(161,922)	-
Net cash used in investing activities	(460,868)	(451,735)
Cash flows from financing activities:		
Proceeds from capital leases	132,023	367,951
Repayments on capital leases	(150,766)	(98,777)
Proceeds from exercise of common stock options	-	113,550
Net cash (used in) provided by financing activities	(18,743)	382,724
Increase (decrease) in cash and cash equivalents	254,847	(501,340)
Cash and cash equivalents at beginning of year	4,427,406	5,256,308
Cash and cash equivalents at end of period	$4,682,253	$4,754,968

See accompanying notes to unaudited consolidated financial statements.

vFinance, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
September 30, 2006

NOTE 1 - DESCRIPTION OF BUSINESS

vFinance, Inc. (the "Company") is a holding company engaged in the financial services business where our strategic focus is on servicing the needs of high net-worth and institutional investors and high growth companies. Through our principal operating subsidiary, vFinance Investments, Inc.(vFinance Investments), a licensed broker-dealer, we provide investment banking, retail and institutional brokerage services in all 50 states and the District of Columbia. The Company also operates a second broker-dealer, EquityStation, Inc. ("EquityStation") which offers institutional traders, hedge funds and professional traders a suite of services designed to enhance their trading capabilities by offering services such as trading and routing software, hedge fund incubation, capital introduction and custodial services.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

The unaudited 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 and nine month periods ended September 30, 2006 are not necessarily indicative of the results to be expected for the year ended December 31, 2006. The interim financial statements should be read in connection with the audited financial statements and notes contained in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005.

Use of estimates

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Furthermore, the Company, including its wholly owned subsidiary vFinance Investments, has been named as a defendant in various customer arbitrations. These claims result from the actions of brokers affiliated with vFinance Investments In addition, under the vFinance Investments registered representative's contract, each registered representative has indemnified the Company for these claims. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 5 "Accounting for Contingencies," the Company has established liabilities for potential losses from such complaints, legal actions, investigations and proceedings. In establishing these liabilities, the Company's management uses its judgment to determine the probability that losses have been incurred and a reasonable estimate of the amount of losses. In making these decisions, we base our judgments on our knowledge of the situations, consultations with legal counsel and our historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution. However, accruals are reviewed regularly and are adjusted to reflect our estimates of the impact of developments, rulings, advice of counsel and any other information pertinent to a particular matter. Because of the inherent difficulty in predicting the ultimate outcome of legal and regulatory actions, we cannot predict with certainty the eventual loss or range of loss related to such matters. If our judgments prove to be incorrect, our liability for losses and contingencies may not accurately reflect actual losses that result from these actions, which materially affect results in the period when expenses are ultimately determined. As of September 30, 2006, the Company has accrued approximately $105,000 for these matters. The Company has recently acquired an errors and omissions

Use of estimates (Continued)

insurance policy, for certain future claims in excess of the policy's $75,000 per claim deductible up to an aggregate of $1 million. While the Company will vigorously defend itself in these matters, and will assert insurance coverage and indemnification to the maximum extent possible, there can be no assurance that these lawsuits and arbitrations will not have a material adverse impact on its financial position.

Accounts receivable

Accounts receivable consist of receivables incurred in the ordinary course of our business including but not limited to investment banking and consulting fees. The Company has a policy of establishing an allowance for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. The allowance for uncollectible receivables at September 30, 2006 was approximately $10,000 and at December 31, 2005 was $0.

A receivable from one independent contractor in the amount of $112,731 accounted for 40% of the Company's accounts receivable balance at September 30, 2006.

Property and equipment

Property and equipment are carried at cost and depreciated over estimated useful lives of between 3 and 7 years. Equipment acquired under capital leases are reported on the balance sheet and amortized over the life of the lease. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

Intangible assets

Intangible assets consist of customer relationships acquired in connection with business combinations. The customer relationships are amortized using the straight-line method over an expected useful life of five years in accordance with SFAS No.142.

Impairment of long-lived assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company periodically reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value.

Revenue recognition

The Company follows the guidance of the Commission's Staff Accounting Bulletin 104 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectibility is reasonably assured.

The Company earns revenue from brokerage and trading which are recognized at the time of execution. The Company also earns revenue from investment banking and consulting. Monthly consulting fees for investment banking are recognized as earned. Investment banking success fees are revenues that are paid only upon successful completion of a capital raise or similar transaction. Success fees are generally based on a percentage of the total value of the customers benefit from the transaction. These fees are not accrued prior to completing the transaction and are recorded when fees are earned as a result of completing a successful transaction.

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 which include stock purchase warrants and common and referred tock 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 #115 "Accounting for certain investments in debt and equity securities" and EITF 00-8 "Accounting by a grantee for an equity instrument to be received in conjunction with providing goods or services." Primarily all of the equity instruments are received from small public companies. The 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. The Company recognizes 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, the Company recognizes 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, 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.

On occasion, the Company distributes 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.

Concentrations of credit risk and Legal Proceedings

The Company maintains its cash in bank and brokerage deposit accounts, the majority of which, at times, are either uninsured or may exceed federally insured limits. At September 30, 2006, the Company had $4,682,253 in United States bank deposits, which exceeded federally insured limits. The Company has not experienced any losses in such accounts through September 30, 2006.

On or about July 26, 2006, Avalon Partners, Inc. and Vincent Vu (collectively "Avalon") filed an arbitration action (NASD Case No. 06-3480) against Jovanne Aquino, Devaugh Myles, Raschid Thompson, Jay Shaw, Melissa Rodriguez (collectively, "Co-Defendants") and vFinance Investments, claiming that vFinance Investments and the Co-Defendants defamed Avalon and that vFinance tortuously interfered with a contract and a prospective economic advantage. Avalon is seeking $1 million in damages plus punitive damages. vFinance Investments denies any liability to Avalon and intends to vigorously defend against Avalon's claims.

Stock-based compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment ("SFAS No. 123R"). SFAS No. 123R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS No. 123R, the Company recognized the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the financial statements.

Prior to January 1, 2006, the Company accounted for stock-based employee compensation plans (including shares issued under its stock option plans) in accordance with APB Opinion No. 25 and followed the pro forma net income, pro forma income per share, and stock-based compensation plan disclosure requirements set forth in the Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123").

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 carry forwards totaled approximately $12.0 million at September 30, 2006 and $11.9 million at December 31, 2005. Each quarter the Company weighs the available positive and negative evidence and determines the extent to which the net operating loss carry forwards is realizable.

Utilization of the Company's net operating loss carry-forwards are limited based on changes in ownership as defined in Internal Revenue Code Section 382.

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. The Company excluded 2,026,585 options and warrants from the determination of diluted earnings per share, as inclusion of these options and warrants would have been anti-dilutive because the Company had a net loss.

Recent accounting pronouncements

In May 2005, the Financial Accounting Standards Board issued SFAS No. 154, "Accounting Changes and Error Corrections" which replaces Accounting Principles Board Opinion ("APB") No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have an effect on the Company's consolidated financial statements.

In February 2006, the Financial Accounting Standards Board issued SFAS No. 155, "Accounting for Certain Hybrid Instruments: An Amendment of FASB Statements No. 133 and 140". Management does not believe that this statement will have a significant impact as the Company does not use such instruments.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value and applies other accounting pronouncements that require or permit fair value measurements and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") 108, to address diversity in practice in quantifying financial statement misstatements and the potential for the build up of improper amounts on the balance sheet. SAB 108 identifies the approach that registrants should take when evaluating the effects of unadjusted misstatements on each financial statement, the circumstances under which corrections of misstatements should result in a revision to financial statements, and disclosures related to the correction of misstatements. SAB 108 is effective for any report for an interim period of the first fiscal year ending after November 16, 2006. The Company is evaluating the effect the adoption of SAB 108 will have on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Reclassifications

Certain items in the 2005 consolidated financial statements have been reclassified to conform to the presentation in the 2006 consolidated financial statements. Such reclassifications did not have a material impact on the presentation of the overall financial statements.

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NOTE 3 - PROPERTY AND EQUIPMENT

At September 30, 2006 and December 31, 2005 respectively, property and equipment consisted of the following:

Description	Useful Life Years	September 30, 2006 (Unaudited)	December 31, 2005
Furniture & fixtures	5	$ 89,699	$ 85,132
Equipment	5	683,471	559,504
Capital leases - computer equipment	3	704,558	572,535
Leasehold improvements	4	172,207	166,707
Software	5	206,781	173,890
Less: accumulated depreciation		(1,143,600)	(865,130)
Total fixed assets		$ 713,116	$ 692,638

The Company recorded depreciation expense of $278,471 and $217,410 in the nine months ended September 30, 2006 and September 30, 2005, respectively.

NOTE 4 - INTANGIBLE ASSETS

At September 30, 2006 and December 31, 2005 respectively, intangible assets consisted of the following:

Description	Useful Life Years	September 30, 2006 (Unaudited)	December 31, 2005
Customer relationships	5	$ 4,872,700	$ 1,466,700
Less: accumulated amortization		(495,307)	(19,852)
Total intangible assets		$ 4,377,393	$ 1,446,848

The Company recorded amortization expense of $475,455 and $0 in the nine months ended September 30, 2006 and September 30, 2005, respectively.

NOTE 5 - ACQUISITION OF CUSTOMER RELATIONSHIPS

On May 11, 2006, the Company's wholly-owned subsidiary, vFinance Investments, purchased certain assets of Sterling Financial Investment Group, Inc. ("SFIG") and Sterling Financial Group of Companies, Inc. ("SFGC" and together with SFIG, "Sterling"). The assets acquired from Sterling include Sterling's Institutional Fixed Income and Latin American businesses as a going concern, comprised principally of client accounts. These transactions were approved by the National Association of Securities Dealers, Inc. on April 28, 2006.

Purchase price consideration consisted of 13 million shares of the Company's common stock, to which the Company has granted certain registration rights. Additionally, certain shares are subject to a standstill agreement and a voting and lockup agreement.

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NOTE 5 - ACQUISITION OF CUSTOMER RELATIONSHIPS (Continued)

The assets acquired in this transaction were the Sterling customer relationships, which were capitalized as an intangible asset, customer relationships, at the time of acquisition in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets". Under the provisions of SFAS No. 142, identifiable intangible assets are recorded at cost, amortized over their expected useful lives, and are required to be examined for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", whenever indicators of impairment exist.

The purchase price of the customer relationships was determined to be $3,406,000, based on the average closing price of the Company's stock for the five days prior to completing the business combination. Customer relationships are amortized over their estimated useful lives, which coincide with their expected revenue-generating lives, generally 5 years. The results of operations of the acquired business are included in the Company's results of operations since the acquisition in May 2006.

The following tables summarize statement of operations data for the nine months ended September 30, 2006 and 2005, after giving effect to this business combination as though the transactions occurred as of the beginning of the period presented. This pro forma information is presented for informational purposes, based upon available data and assumptions that management believes are reasonable, and is not necessarily indicative of future results:

	Nine Months Ended September 30,		
	vFinance	Sterling	Adjustments
Net revenues	$ 28,082,409	$ 8,082,546	$
(Loss) income from operations	$ (656,025)	$ 689,109	$ (227,0
Net (loss) income	$ (656,025)	$ 689,109	$ (227,0
Loss per share - basic and diluted	$ (0.01)		$ (0.
Wtd. avg. shares outstanding - basic and diluted	46,912,989		6,238,0

	Nine Months Ended Septe		
	vFinance	Sterling	Adju
Net revenues	$ 19,425,070	$ 8,082,546	$
(Loss) income from operations	$ (356,735)	$ 689,109	$
Net (loss) income	$ (356,735)	$ 689,109	$
Loss per share - basic and diluted	$ (0.01)		$

Wtd. avg. shares outstanding - basic and diluted	40,023,880	13

Pro forma adjustments consist of amortization of the acquired customer relationships and an increase in the number of weighted average shares to give effect to the 13 million shares of common stock issued as purchase price consideration, as if they were issued as of the beginning of the period presented.

NOTE 6 - STOCKHOLDERS' EQUITY

The pro forma net earnings per share amounts as if the fair value method had been used are presented below for the three and nine months ended September 30, 2005, in accordance with the Company's adoption of SFAS 123(R) effective January 1, 2006.

Prior to January 1, 2006, the Company accounted for stock-based employee compensation plans (including shares issued under its stock option plans) in accordance with APB Opinion No. 25 and followed the pro forma net income, pro forma income per share, and stock-based compensation plan disclosure requirements set forth in the Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123").

During the quarter ended September 30, 2006, the Company issued 3,416,250 options to purchase common stock for compensation to employees and independent contractors. The fair market value of these options was valued on the grant date using the Black-Scholes option-pricing model using the following weighted average assumptions: dividend yield of 0%, expected volatility of 74.5%, risk free interest rate of 5.25% and a term of five years. For the quarter ended September 30, 2006, the net income and earnings per share reflect a non cash compensation expense of $117,266.

	Three Months Ended September 30, 2005	Nine M Septem
Net loss - as reported	$ (132,742)	$
Less: stock based compensation determined under the Fair value method, net of income tax effect	(116,028)	
Pro forma net loss	$ (248,770)	$
Basic earnings (loss) per share - as reported	$ (0.00)	$
Basic earnings (loss) per share - pro forma	$ (0.01)	$
Weighted average shares outstanding: basic and diluted	40,123,134	

NOTE 6 - STOCKHOLDERS' EQUITY (Continued)

A summary of the stock option activity for the nine months ended September 30, 2006 is as follows:

	Weighted Average Exercise Price	Number of Shares	Exercise Per Op
Outstanding options at December 31, 2005	$ 0.23	14,614,839	$ 0.15 -
Granted	$ 0.21	3,416,250	$ 0.17 -
Exercised	$ -	-	-
Cancelled	$ 0.31	(5,016,087)	$ 0.15 -
Outstanding options at September 30, 2006	$ 0.19	13,015,002	$ 0.15 -

The following table summarizes information concerning stock options outstanding at September 30, 2006.

Exercise Price	Options Outstanding
0.150	235,000
0.155	3,985,000
0.170	1,630,000
0.180	665,000
0.190	1,667,502
0.200	930,000
0.205	320,000
0.210	601,250
0.220	150,000
0.230	1,667,500
0.250	263,750
0.260	405,000
0.270	5,000
0.280	97,500
0.330	2,500
0.350	170,000
0.363	120,000
0.500	100,000
	13,015,002

As of September 30, 2006, the Company had 13,015,002 exercisable common stock options, of which 9,127,502 are vested and 3,887,500 are unvested.

NOTE 6 - STOCKHOLDERS' EQUITY (Continued)

A summary of the stock purchase warrant activity for the six months ended September 30, 2006 is as follows:

	Weighted Average Exercise Price	Number of Warrants
Outstanding warrants at December 31, 2005	$ 1.12	7,659,589
Granted	$ -	-
Exercised	$ -	-
Cancelled	$ 2.25	(585,000)
Outstanding warrants at September 30, 2006	$ 1.02	7,074,589

The following table summarizes information concerning warrants outstanding at September 30, 2006.

Exercise Price	Warrants Outstanding
0.150	750,000
0.160	2,427,923
0.200	1,000,000
0.350	1,673,500
0.630	400,000
6.000	103,166
7.200	700,000
	7,054,589

As of September 30, 2006 all of the Company's common stock warrants were exercisable.

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NOTE 7 - SUBSEQUENT EVENTS

In October 2006, the Company combined the operations conducted in the leased facility assumed in connection with the Sterling acquisition with the Company's corporate headquarters. In connection with this consolidation, the Company sublet the former Sterling facility, with the sublease effective December 1, 2006 through the end of the assumed lease term. Beginning in December 2006, the future sublease payments the Company will receive will approximate the future rental payments the Company assumed.

On November 7, 2006, the Company resolved a disagreement related to the 2004 acquisition of assets from EquityStation, Inc. ("EquityStation") and Global Partners Securities, Inc. ("Global"). In connection with the resolution of the dispute, the Company: (a) canceled 8,324,690 shares of its common stock and warrants to purchase, at an exercise price of $0.11 per share, 3,299,728 shares of common stock which were being held in escrow to be issued to Global and Level2.com, Inc. ("Level2"), the parent company of EquityStation, and (b) agreed to issue to each of Global and Level2 3,288,253 shares and 3,288,252 shares, respectively, of its common stock and warrants to purchase 1,303,393 shares and

1,303,392 shares, respectively, of the Company's common stock at an exercise price of $0.11 per share

On October 16, 2006, the Company settled a lawsuit initiated by two customers by agreeing to issue 1,000,000 shares of the Company's common stock to the customers. The common stock will be accounted for as general and administrative expense, based on the average closing price of the Company's common stock for the five days prior to issuance of these shares. As part of the settlement, the Company agreed that if the customers sold the common stock after October 16, 2007 at a sales price of less than $0.175 per share, the Company would pay the customers the difference between $0.175 per share and the actual net sales price of the common stock in a transaction with a bona fide third party.

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vFinance, Inc. and Subsidiaries
September 30, 2006

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

The following table and discussion summarizes the changes in the major revenue and expense categories for the past two years.

	Three Months Ended September 30,			Nine Month
Revenues:	2006 (Unaudited)	2005 (Unaudited)	% Chg	2006 (Unaudi
Commissions - agency	$4,849,901	$ 4,037,698	20.1 %	$ 14,374,7
Trading profits	2,794,541	938,700	197.7 %	6,798,5
Success fees	1,000,201	741,683	34.9 %	3,850,7
Other brokerage related income	847,947	686,639	23.5 %	2,393,9
Consulting fees	44,673	85,500	(47.8)%	347,6
Other	8,273	103,576	(92.0)%	361,1
Total revenues	9,545,536	6,593,796	44.8 %	28,126,8
Interest expense	14,315	9,941	44.0 %	44,4
Net revenues	9,531,221	6,583,855	44.8 %	28,082,4
Operating expenses:				
Compensation, commissions and benefits	7,524,219	5,093,632	47.7 %	21,843,8
Clearing and transactions costs	1,025,803	749,836	36.8 %	3,036,6
General and administrative costs	660,143	588,478	12.2 %	1,890,3
Occupancy and equipment costs	335,524	185,275	81.1 %	860,3
Depreciation and amortization	346,870	82,611	319.9 %	753,9
Stock based compensation	117,266	16,765	599.5 %	353,2
Total operating expenses	10,009,825	6,716,597	49.0 %	28,738,4
Loss from operations	(478,604)	(132,742)	260.6 %	(656,0
Income tax benefit (provision)	-	-	-	
Net loss	$ (478,604)	$(132,742)	260.6 %	$ (656,0

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vFinance, Inc. and Subsidiaries
September 30, 2006

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

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2005

STATEMENTS OF OPERATIONS

Revenues

Net revenues increased $2,947,366 or 45% to $9,531,221 for the three months ended September 30, 2006 compared to $6,583,855 for the three months ended September 30, 2005. Approximately 63% of this increase is attributable to the trading profits derived from the customer relationships acquired from Sterling in May 2006 and generally more favorable trading conditions in our market making activities. Additionally, another 28% of this increase resulted from higher agency commissions due to the addition of new brokers, through both the acquisition of Sterling and other brokers hired independently of the acquisition. The majority of the remaining increase was due to higher revenues from success fees relating to investment banking transactions.

Operating Expenses

Compensation, commissions and benefits increased 48% to $7,524,219 for the three months ended September 30, 2006 compared to $5,093,632 for the three months ended September 30, 2005, primarily as a result of the Sterling acquisition and a 45% increase in net revenues.

Clearing and transaction costs increased 37% to $1,025,803 for the three months ended September 30, 2006 compared to $749,836 for the three months ended September 30, 2005, primarily as a result of an increase in transaction volume partially due to the Sterling acquisition as well as higher average transaction costs associated with our trading activities.

General and administrative expenses increased $71,665 or 12% to $660,143 for the three months ended September 30, 2006 compared to $588,478 for the three months ended September 30, 2005. This increase is primarily due to expenses related to legal matters.

Occupancy and equipment costs increased $150,249 to $335,524 for the three months ended September 30, 2006 compared to $185,275 for the three months ended September 30, 2005. This increase relates primarily to the occupancy and equipment costs associated with the Sterling acquisition. In October 2006, the Company combined the operations conducted in the leased facility assumed in connection with the Sterling acquisition with the Company's corporate headquarters. In connection with this consolidation, the Company sublet the former Sterling facility, with the sublease effective December 1, 2006 through the end of the assumed lease term. Beginning in December 2006, the future sublease payments the Company will receive will approximate the future rental payments the Company assumed.

Depreciation and amortization increased $264,259 to $346,870 for the three months ended September 30, 2006 compared to $82,611 for the three months ended September 30, 2005. The increase was primarily attributable to the Company's amortization of customer relationships from the Equity Station / Global Securities and Sterling acquisitions.

Stock based compensation was $117,266 for the three months ended September 30, 2006 compared to $16,765 for the three months ended September 30, 2005, due to the Company's adoption of the Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment ("SFAS No. 123R") on January 1, 2006.

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2005

STATEMENTS OF OPERATIONS

Revenues

Net revenues increased $8,657,339, or 45% to $28,082,409 for the nine months ended September 30, 2006 compared to $19,425,070 for the nine months ended September 30, 2005. Approximately 40% of this increase is attributable to the trading profits derived from the customer relationships acquired from Sterling in May 2006 and generally more favorable trading conditions in our market making activities. Additionally, another 34% of this increase resulted from increases in agency commissions due to the addition of new brokers, through both the acquisition of Sterling and other brokers hired independently of the acquisition. The majority of the remaining increase was due to higher revenues from success fees from investment banking transactions.

Operating Expenses

Compensation, commissions and benefits increased 45% to $21,843,863 for the nine months ended September 30, 2006 compared to $15,040,569 for the nine months ended September 30, 2005, primarily as a result of the Sterling acquisition and a 45% increase in net revenues.

Clearing and transaction costs increased 34% to $3,036,643 for the nine months ended September 30, 2006 compared to 2,273,180 for the nine months ended September 30, 2005, primarily as a result of an increase in transaction volume partially due to the Sterling acquisition and the addition of other independent brokers, as well as higher average transaction costs associated with our trading activities.

General and administrative expenses increased 11% to $1,890,355 for the nine months ended September 30, 2006 compared to $1,698,127 for the nine months ended September 30, 2005. This increase is primarily due to expenses related to legal matters.

Occupancy and equipment expenses increase 61% to $860,352 for the nine months ended September 30, 2006 compared to $533,107 for the nine months ended September 30, 2005. This increase relates primarily to the occupancy and equipment costs associated with the Sterling acquisition.

Depreciation and amortization increased $536,516 to $753,926 for the nine months ended September 30, 2006 compared to $217,410 for the nine months ended September 30, 2005. The increase was primarily attributable to the Company's amortization of customer relationships from the Equity Station / Global Securities and Sterling acquisitions.

Stock based compensation was $353,295 for the nine months ended September 30, 2006 compared to $19,412 for the nine months ended September 30, 2005, due to the Company's adoption of the Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment ("SFAS No. 123R") on January 1, 2006.

LIQUIDITY AND CAPITAL RESOURCES

The Company had $4,682,253 of unrestricted cash at September 30, 2006 as compared to $4,427,406 of unrestricted cash at December 31, 2005.

Net cash provided by operating activities for the nine months ended September 30, 2006 was $734,458 compared to net cash used in operating activities of $432,329 for the nine months ended September 30, 2005. This increase of approximately $1.2 million is primarily attributable to an increase of approximately $475,000 in amortization expense associated with acquired customer relationships, and an increase of approximately $334,000 in stock based compensation expense as a result of the adoption of SFAS 123R. Additionally, accounts payable, accrued liabilities and securities sold not yet purchased increased by approximately $337,000 compared to a decrease of approximately $740,000 in the nine months ended 2005. Partially offsetting these items were a $433,000 increase in non-cash fees received as a result of increased investment banking activity and non cash compensation and impairment expenses of approximately $158,000 and $80,000 respectively during the nine months ended September 30, 2005.

Net cash used in investing activities for the nine months ending September 30, 2006, was $460,868 compared to $451,735 for the nine months ending September 30, 2005. Net cash used in investing activities for the nine months ended September 30, 2006 included $161,922 for an investment in an unconsolidated affiliate. Partially offsetting this use of cash was as decrease in the additions to our fixed assets under capital leases during the first nine months of 2006 compared to the first nine months of 2005. In the first nine months of 2005, the Company invested in its disaster recovery plan by implementing communication redundancy systems that enables us to continuously service our clients.

Net cash used in financing activities for the nine months ending September 30, 2006, was $18,743 as compared to net cash provided by financing activities of $382,724 for the nine months ending September 30, 2005. In 2005 the Company entered into approximately $368,000 of new capital lease agreements related to its investment in its disaster recovery plan.

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 but 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.

CRITICAL ACCOUNTING ESTIMATES

This discussion and analysis of financial condition and results of operations is based on the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires our management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as related disclosures of contingent assets and liabilities. The Company evaluates our estimates on an ongoing basis and the Company bases its estimates on historical experience and various other assumptions the Company deem reasonable to the situation. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Changes in our estimates could materially impact our results of operations and financial condition in any particular period.

Note 2 to our audited consolidated financial statements dated December 31, 2005 includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. Based on the high degree of judgment or complexity in their application, the Company considers our critical accounting policies and estimates to be:

REVENUE RECOGNITION. The Company periodically receives 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 #115 "Accounting for certain investments in debt and equity securities" and EITF 00-8 "Accounting by a grantee for an equity instrument to be received in conjunction with providing goods or services." Primarily all of the equity instruments are received from small public companies. The 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. The Company recognizes 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, the Company recognizes 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, 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.

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, the Company typically reserves an amount the Company believes will be sufficient to cover any damages assessed against us. However, the Company has in the past been assessed damages that exceeded our reserves. If the Company misjudged the amount of damages that may be assessed against us from pending or threatened claims or if the Company is 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.

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 estimates of fair value are fundamental to our financial condition and results of operations and, in certain circumstances, require complex judgments. vFinance Investments relies upon its clearing firm to provide us with these fair values, because the clearing firms use market data services that provide fair values of securities based on current market prices. In the case of restricted securities, the Company further adjusts the fair values of securities received to reflect the restrictions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has exposure to market risk, and does periodically hedge against that risk. The Company does not hold or issue any derivative financial instruments for trading or other speculative purposes. The Company is exposed to market risk associated with changes in the fair market value of the marketable securities that it holds. The Company's revenue and profitability may be adversely affected by declines in the volume of securities transactions and in market liquidity, which generally result in lower revenues from trading activities and commissions. Lower securities price levels may also result in a reduced volume of transactions, as well as losses from declines in the market value of securities held by the Company in trading and investment positions. Sudden sharp declines in market values of securities and the failure of issuers and counterparts to perform their obligations can result in illiquid markets in which the Company may incur losses in its principal trading activities.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective.

Changes in Internal Controls

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal controls that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls.

vFinance, Inc. and Subsidiaries
September 30, 2006

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

On August 14, 2002, Henry S. Snow and Sandra L. Snow filed a complaint against Colonial Direct and vFinance, Inc. in the Circuit Court of the 15th Judicial Circuit in Palm Beach County, Florida. The claim alleged breach of contract and unjust enrichment and sought damages of $250,000 plus interest and court costs. On October 16, 2006, the Company settled the litigation by agreeing to issue 1,000,000 shares of its common stock to the Snows by November 16, 2006. In addition, the Company agreed that if the Snows sold their shares of common stock after October 16, 2007 at a price per share of less than $0.175, the Company would pay them the difference between $0.175 and the actual net sale price of the shares sold to any bona fide third party.

On or about July 26, 2006, Avalon Partners, Inc. and Vincent Vu (collectively "Avalon") filed an arbitration action (NASD Case No. 06-3480) against Jovanne Aquino, Devaugh Myles, Raschid Thompson, Jay Shaw, Melissa Rodriguez (collectively, "Co-Defendants") and vFinance Investments, claiming that vFinance Investments and the Co-Defendants defamed Avalon and that vFinance tortuously interfered with a contract and a prospective economic advantage. Avalon is seeking $1 million in damages plus punitive damages. vFinance Investments denies any liability to Avalon and intends to vigorously defend against Avalon's claims.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On October 16, 2006, the Company agreed to issue 1,000,000 shares of its common stock to Henry S. Snow and Sandra L. Snow in connection with the settlement of a lawsuit. The transaction was negotiated with the attorneys for the Snows and was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"). For more details relating to the transaction, see Item 1, Part II of this Form 10-Q.

On November7, 2006, the Company settled a dispute with Global and Level2 over 8,324,690 shares of the Company's common stock and warrants to purchase 3,299,728 shares of common stock held in escrow in connection with a 2004 acquisition by the Company. Pursuant to the settlement, the Company: (a) canceled the escrowed common stock and warrants and (b) agreed to issue to Global and Level2 an aggregate of 6,576,505 shares of common stock and warrants to purchase 2,606,785 shares of common stock. The transaction was entered into with sophisticated and accredited investors as defined in Rule 501 of Regulation D promulgated under the 1933 Act and is therefore exempt from registration under Section 4(2) of the 1933 Act and Regulation D of the 1933 Act.

ITEM 6. EXHIBITS.

(a) EXHIBITS

10.1 - Employment Agreement dated July 24, 2006 between vFinance, Inc.

and Alan B. Levin (incorporated by reference to the Exhibit filed as part of vFinance, Inc.'s Form 8-K dated July 26, 2006, Commission File No. 1-11454).

10.2 - Settlement Agreement dated October 16, 2006 by and among vFinance, Inc., Henry S. Snow, Sandra S. Snow, Michael Golden and Ben Lichtenberg (incorporated by reference to the Exhibit filed as part of vFinance Inc.'s Form 8-K dated November 13, 2006, Commission File No. 1-11454).

10.3 - Settlement and Escrow Release Agreement dated as of November 7, 2006 by and among vFinance, Inc., vFinance Investments, Inc., Global Partners Securities, Inc., Level2.com,Inc. and Edwards Angell Palmer & Dodge LLP (incorporated by reference to the Exhibit filed as part of vFinance, Inc.'s Form 8-K dated November 13, 2006, Commission File No. 1-11454).

10.4 - Warrant to Purchase Common Stock dated November 7, 2006 issued to Global Partners Securities, Inc.

10.5 - Warrant to Purchase Common Stock dated November 7, 2006 issued to Level2.com, Inc.

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

31.2 - Certification by Interim 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 Interim Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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)	November 14, 2006
By: /s/ Alan B. Levin ---------------------- Alan B. Levin	Interim Chief Financial Officer (Principal Financial and Accounting Officer)	November 14, 2006