VFINANCE INC
Form 10-Q
May 15, 2007

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 March 31, 2007

Or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period _____________ to _________________

Commission File Number: 1-11454
vFinance, Inc.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	58-1974423
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

3010 NORTH MILITARY TRAIL, SUITE 300, BOCA RATON, FLORIDA	33431
(Address of Principal Executive Offices)	(Zip Code)

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

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

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 May 14, 2007: 54,679,876 shares of Common Stock $0.01 par value per share.

VFINANCE, INC.
FORM 10-Q
QUARTERLY PERIOD ENDED MARCH 31, 2007

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FORWARD-LOOKING STATEMENTS

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

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2007	December 31, 20
Assets:		
Current assets:		
Cash and cash equivalents	$ 5,248.4	$ 4,205
Due from clearing broker	607.2	299
Marketable investment securities:		
Trading securities	1,691.2	1,009
Available-for-sale securities	493.0	414
Accounts receivable	118.9	123
Forgivable loans - employees, current portion	64.2	58
Notes receivable - employees	100.8	128
Prepaid expenses and other current assets	164.1	184

Total current assets	8,487.8	6,423
Property and equipment, net	619.7	661
Customer relationships, net	3,908.5	4,115
Other assets	476.1	443
Total assets	$ 13,492.1	$ 11,643
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	$ 689.3	$ 821
Accrued compensation	3,241.7	2,394
Other accrued liabilities	897.7	800
Securities sold, not yet purchased	904.4	41
Capital lease obligations, current portion	218.4	210
Other	335.8	348
Total current liabilities	6,287.3	4,617
Capital lease obligations, long term	102.5	125
Shareholders' Equity:		
Common stock $0.01 par value, 100,000,000 shares authorized 54,679,876 and 54,429,876 shares issued and outstanding	546.8	544
Additional paid-in capital	31,308.0	31,147
Accumulated deficit	(24,111.7)	(24,149
Accumulated other comprehensive loss	(640.8)	(642
Total shareholders' equity	7,102.3	6,899
Total liabilities and shareholders' equity	$ 13,492.1	$ 11,643

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2007	2006 (Restated and Revised)
Revenues:		
Commissions - agency	$ 5,629.2	$ 4,755.4
Trading profits	3,596.3	1,501.0
Success fees	1,598.2	1,636.2

Other brokerage related income	1,152.9	792.4
Consulting fees	18.5	151.4
Other	24.1	171.2
Total revenues	12,019.2	9,007.6
Compensation, commissions and benefits	9,662.6	6,784.8
Clearing and transaction costs	1,104.1	937.3
General and administrative costs	656.7	571.5
Occupancy and equipment costs	240.7	203.6
Depreciation and amortization	318.4	122.0
Total operating costs	11,982.5	8,619.2
Income from operations	36.7	388.4
Other income (expenses):		
Interest income	14.6	27.3
Interest expense	(18.3)	(12.2)
Dividend income	3.4	4.1
Other income (expense), net	1.4	4.0
Total other income (expense)	1.1	23.2
Income before income taxes	37.8	411.6
Income tax benefit (provision)	-	-
Net income	$ 37.8	$ 411.6
Net income per share: basic	$ 0.00	$ 0.01
Weighted average number of shares outstanding: basic	54,579.9	40,126.1
Net income per share: diluted	$ 0.00	$ 0.01
Weighted average number of shares outstanding: diluted	56,125.1	42,231.2

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Ac Co si
Balance at December 31, 2006	54,429.9	$ 544.3	$ 31,147.4	$ (24,149.5)	$

Net income	-	-	-	37.8	
Other comprehensive income:					
Unrealized gain on available-for-sale marketable securities	-	-	-	-	
Comprehensive income					
Stock-based compensation expense	-	-	113.1	-	
Issuance of shares for future services	250.0	2.5	47.5	-	
Balance at March 31, 2007	54,679.9	546.8	31,308.0	(24,111.7)	

See accompanying notes to unaudited condensed consolidated financial s

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

	Three Months Ended March 31, 2007	2006 (Restated and Revised)
CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 37.8	$ 411.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash fees received	(237.0)	(576.3)
Non-cash compensation paid	147.6	444.7
Depreciation and amortization	318.3	121.9
Provision for doubtful accounts	-	3.5
Stock-based compensation	113.1	113.1
Amounts forgiven under forgivable loans	18.0	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	4.9	(50.2)
Forgivable loans	(23.4)	-
Due from clearing broker	(307.3)	(179.6)
Notes receivable - employees	27.3	1.7
Investments in trading securities	(681.8)	269.4
Other current assets	69.9	(13.5)
Other assets and liabilities, net	(45.8)	(12.2)
Increase (decrease) in:		
Accounts payable and accrued liabilities	811.7	54.4
Securities sold, not yet purchased	862.8	(9.9)
Cash provided by operating activities	1,116.1	578.6
CASH USED IN INVESTING ACTIVITIES:		

Purchase of property and equipment	(22.9)	(51.6)
Proceeds from sales of investments in securities available-for-sale	12.7	36.0
Cash used in investing activities	(10.2)	(15.6)
CASH USED IN FINANCING ACTIVTIES:		
Repayments of capital lease obligations	(62.7)	(45.6)
Cash used in financing activities	(62.7)	(45.6)
Increase in cash and cash equivalents	1,043.2	517.4
Cash and cash equivalents at beginning of period	4,205.2	4,427.4
Cash and cash equivalents at end of period	$ 5,248.4	$ 4,944.8

See accompanying notes to unaudited condensed consolidated financial statements.

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

vFinance, Inc. (the "Company") is a global financial services company which specializes in high growth opportunities. The Company's expertise into this marketplace flows from three principal lines of business: providing investment banking and advisory services to micro, small and mid-cap high growth companies; making markets in over 3,000 micro and small cap stocks; and, offering information services on its website, a leading destination for emerging companies seeking capital and investors seeking opportunities. Due to its focus, the Company believes it is uniquely positioned to offer alternative investments to institutional and high net worth investors seeking to outperform market indices in addition to offering a full range of investment options. With over 40 offices in the U.S. and other parts of the world, the Company serves more than 12,000 corporate, institutional and high net worth clients. vFinance Investments, Inc. ("vFinance Investments") and EquityStation, Inc. ("EquityStation"), both subsidiaries of vFinance, Inc., are broker-dealers registered with the Securities and Exchange Commission ("SEC"), and members of National Association of Securities Dealers ("NASD") and Securities Investor Protection Corporation ("SIPC"). vFinance Investments is also a member of the National Futures Association ("NFA").

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

The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three month period ended March 31, 2007 is not necessarily indicative of the results to be expected for the year ended December 31, 2007. 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-K for the year ended December 31, 2006.

Reclassifications

Certain items in the 2006 Unaudited Condensed Consolidated Financial Statements have been reclassified to conform to the presentation in the 2007 Unaudited Condensed Consolidated Financial Statements. Such reclassifications did not have a material impact on the presentation of the overall financial statements.

VFINANCE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued.)

Restatement and Revision

The Company has restated certain amounts in the Unaudited Condensed Consolidated Financial Statements as of and for the three months ended March 31, 2006 as a result of comments to the Company from the staff of the Securities and Exchange Commission ("SEC"), as previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

A summary of the effects of the restatement and revision for the three months ended March 31, 2006 is as follows:

				Effect	
	As Reported Three Months Ended March 31, 2006	Reclassifications	As Revised	Reclassification of Securities from Trading to Available-for-Sale	Amorti ation Intagi Asse
Statement of Operations:					
Total revenues	$ 8,754.8	141.1	$ 8,895.9	111.7	-
Clearing and transaction costs	$ 793.3	154.0	$ 947.3	-	-
Depreciation and amortization	$ 158.6	0.1	$ 158.7	-	(36.7)
Total operating costs	$ 8,520.9	145.0	$ 8,665.9	-	(36.7)
Income (loss) from operations	$ 234.0	(4.0)	$ 230.0	111.7	36.7
Net income	$ 253.2		$ 253.2	111.7	36.7
Net income per share - basic	$ 0.01				
Wt. avg. shares outstanding - basic	40,126.1				
Net income per share - diluted	$ 0.01				
Wt. avg. shares outstanding - diluted	42,231.2				

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.

New Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments", which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No.133 and SFAS No.140. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 did not have a material impact on the Company's Consolidated Financial Statements.

In June 2006, the FASB issued FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes". This interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 clarifies the application of FASB Statement No. 109 by defining the criteria that an individual tax position must meet in order for the position to be recognized within the financial statements. It also provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition for tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006, with earlier adoption permitted. The adoption of FIN 48 did not have a material impact on the Company's Consolidated Financial Statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In December 2006, the FASB issued FASB Staff Position ("FSP") EITF 00-19-2, "Accounting for Registration Payment Arrangements." FSP EITF 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for

Contingencies." This FSP further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement, and provides disclosure requirements for registration statement arrangements. The adoption of FSP EITF 00-19-2 did not have a material impact on the Company's Consolidated Financial Statements, since the Company has not typically enter into registration payment arrangements, as defined by FSP EITF 00-19-2.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities - Including an Amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses, arising subsequent to adoption, are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159, if elected, on its Consolidated Financial Statements.

2. PROPERTY AND EQUIPMENT

At March 31, 2007 and December 31, 2006, property and equipment, net consisted of the following:

	March 31, 2007	December 31, 2006
Furniture and fixtures	$ 90.8	$ 90.8
Equipment	744.3	727.5
Capital leases - computer equipment	751.7	704.5
Leasehold improvements	174.8	174.8
Software	221.0	214.8
	1,982.6	1,912.4
Less: accumulated depreciation	(1,362.9)	(1,251.4)
Property and equipment, net	$ 619.7	$ 661.0

The Company acquired $47.2 thousand of computer equipment under capital leases in the three months ended March 31, 2007.

The Company recorded depreciation expense of $111.4 thousand and $85.3 thousand in the three months ended March 31, 2007 and 2006, respectively.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued.)

3. STERLING FINANCIAL ACQUISITION

On May 11, 2006, 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 Financial"). The assets acquired from Sterling Financial consisted primarily of client accounts from Sterling Financial's Institutional Fixed Income and Latin American businesses. These transactions were approved by the National Association of Securities Dealers, Inc. on April 28, 2006.

The following unaudited Pro Forma Combined Financial Statements of Sterling and vFinance gives effect to the acquisition of certain assets of Sterling Financial, as though the transactions occurred as of January 1, 2006. This unaudited 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:

	Three Months Ended March 31, 2006			
	vFinance	Sterling	Adjustments	Pro F
Total revenue	$ 9,007.6	$ 1,750.1	$ -	$ 10,
Income from operations	388.4	143.5	(170.0)	
Net income	411.6	143.5	(170.0)	
Earnings per share - diluted	$ 0.01		$ (0.01)	$
Wt. avg. shares outstanding - diluted	40,126.1		13,000.0	53,
Earnings per share - diluted	$ 0.01		$ (0.01)	$
Wt. avg. shares outstanding - diluted	42,231.2		13,000.0	55,

4. CUSTOMER RELATIONSHIPS

At March 31, 2007, customer relationships totaled $3.9 million, net of accumulated amortization of $944.4 thousand. At December 31, 2006 customer relationships totaled $4.1 million, net of accumulated amortization $737.4 thousand.

Acquired customer relationships are amortized using the straight-line method over their estimated useful lives, which coincide with their expected revenue-generating lives, which range from five to ten years. The Company recorded amortization expense of $207.0 thousand and $36.7 thousand in the three months ended March 31, 2007 and 2006, respectively.

VFINANCE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued.)

5. EARNINGS PER SHARE

The Company calculates earnings per share in accordance with SFAS No. 128, "Earnings per Share". 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, as follows:

	Three Months Ended March 31,	
	2007	2006
Weighted average shares outstanding - basic	54,579.9	40,126.1
Effect of dilutive stock options and warrants	1,545.2	2,105.1
Weighted average shares outstanding - diluted	56,125.1	42,231.2

As of March 31, 2007, the Company had 18.5 million stock options and warrants outstanding, of which 8.8 million have been excluded from the computation of diluted earnings per share because they were anti-dilutive. As of March 31, 2006, the Company had 21.4 million stock options and warrants outstanding, of which 8.4 million have been excluded from the computation of diluted earnings per share because they were anti-dilutive.

6. COMMITMENTS AND CONTINGENCIES

Clearing Agreement

As consideration for certain incentives received at the inception of the Clearing Agreement, the Company is required to pay a termination fee of $1.7 million in the event vFinance Investments terminates the Clearing Agreement. This fee is reduced annually on a pro rata basis over the five year term of the Clearing Agreement. As of March 31, 2007, the contingent obligation of the Company associated with this Clearing Agreement was $680.0 thousand.

Litigation

The business of vFinance Investments and EquityStation involve 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 customers 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 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.

The following is a brief summary of certain matters pending against or involving the Company and its subsidiaries.

On or about February 28, 2005, Knight Equity Markets, LP ("Knight") filed an arbitration action (NASD Case No. 05-01069) against vFinance Investments, Inc. ("vFinance Investments"), claiming that vFinance Investments received roughly $6.5 million in dividends that rightfully belong to Knight. vFinance Investments asserts that the dividends actually went to two of its clients, Pearl Securities LLC ("Pearl Securities") and Michael Balog, and that vFinance Investments has no liability. vFinance Investments filed third party claims against Pearl Securities and Michael Balog to bring all of the parties into the action. Knight is seeking approximately $6.5 million in damages plus costs, attorney fees and punitive damages. vFinance Investments denies any liability to Knight and intends to vigorously defend against Knight's claims.

On or about April 2005 Gregory F. and Ruth A. Whitten filed an arbitration action (NASD Case No. 05-02103) with NASD naming vFinance Investments as a Co-Respondent. The Statement of Claim filed in this action alleges negligent and intentional misrepresentations, breach of fiduciary duty, violation of Washington State Securities Act, and violation of the Washington Consumer Protection Act, in connection with the handling of claimants' brokerage accounts by Robert Agriogianis. The Statement of Claim alleges compensatory damages in excess of $445.0 thousand plus interest, costs, and attorney's fees. vFinance Investments has filed an Answer and Affirmative Defenses with the NASD. The Final Hearing occurred on May 2, 3, 4, 2007, and we are awaiting the final outcome. vFinance Investments denies any liability to Gregory F. and Ruth A. Whitten and intends to vigorously defend against their claim.

On or about September 27, 2005, John S. Matthews filed an arbitration action (NASD Case No. 05-014991) against the Company, claiming that the Company wrongfully terminated his independent contact with the Company and that the Company "stole" his clients and brokers. Mr. Matthews has obtained a temporary restraining order and an agreed upon injunction was issued by the NASD panel. Mr. Matthews and JMS Capital Holding Corp., a plaintiff in the arbitration action also request unspecified damages resulting from the Company's alleged improper activity. The full hearing on the merits was postponed and is rescheduled for July 23 - 25, 2007. The Company intends to vigorously defend this matter. In addition to contesting and defending against JSM's and Mr. Matthews claims, the Company filed a counterclaim for indemnity based upon the contractual agreement between the parties.

The Company engaged in a number of other legal proceedings incidental to the conduct of its business. These claims aggregate a range of $50.0 thousand to $260.0 thousand.

As of March 31, 2007 and December 31, 2006, the Company had accrued approximately $100.0 thousand and $70.0 thousand, respectively, to provide for these matters. In 2005 the Company acquired an errors and omissions policy for certain future claims in excess of the policy's $75.0 thousand per claim deductible, up to an aggregate of $1.0 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.

7. SUBSEQUENT EVENTS

On May 9, 2007 EquityStation received notification from Merrill Lynch Pierce Fenner & Smith, Broadcort Division that effective September 22, 2007 it will be terminating its clearing agreement with EquityStation, as provided for in the clearing agreement. The Company does not expect this termination to result in a material impact to its Consolidated Financial Statements, as it expects to replace the agreement by September 2007.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and notes thereto included under Item 1. In addition, reference should be made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K.

Certain amounts have been reclassified from the previously reported financial statements to conform to the income statement presentation of the current period.

We have restated certain amounts in the Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2006 as a result of comments to us from the Securities and Exchange Commission, as previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

The following table and discussion summarizes the changes in major revenue and expense categories for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,			
	2007	2006 (Restated and Revised)	Change	% Ch
Revenues:				
Commissions - agency	$ 5,629.2	$ 4,755.4	873.8	18
Trading profits	3,596.3	1,501.0	2,095.3	139
Success fees	1,598.2	1,636.2	(38.0)	(2
Other brokerage related income	1,152.9	792.4	360.5	45
Consulting fees	18.5	151.4	(132.9)	(87
Other	24.1	171.2	(147.1)	(85
Total revenues	12,019.2	9,007.6	3,011.6	33
Compensation, commissions and benefits	9,662.6	6,784.8	2,877.8	42
Clearing and transaction costs	1,104.1	937.3	166.8	17
General and administrative costs	656.7	571.5	85.2	14
Occupancy and equipment costs	240.7	203.6	37.1	18
Depreciation and amortization	318.4	122.0	196.4	161
Total operating costs	11,982.5	8,619.2	3,363.3	39
Income from operations	36.7	388.4	(351.7)	(90
Other income (expenses):				

Interest income	14.6	27.3	(12.7)	(46
Interest expense	(18.3)	(12.2)	(6.1)	50
Dividend income	3.4	4.1	(0.7)	(17
Other income (expense), net	1.4	4.0	(2.6)	(65
Total other income (expense)	1.1	23.2	(22.1)	(95
Income before income taxes	37.8	411.6	(373.8)	(90

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THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2006

STATEMENT OF OPERATIONS

Revenues

Total revenues for the three months ended March 31, 2007 increased 33%, or $3.0 million, compared to the three months ended March 31, 2006, primarily as a result of the May 2006 acquisition of Sterling Financial Acquisition and generally more favorable market conditions. Approximately 70% of the $3.0 million increase is attributable to increased trading profits, derived from new brokers and the customer relationships acquired from Sterling Financial, as well as generally more favorable trading conditions in our market making activities. The majority of the remaining increase resulted from higher agency commissions, attributable to the addition of new brokers in 2006 and 2007.

Success fees decreased 2%, or $38.0 thousand, in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Non-cash success fee revenues decreased $339.3 thousand to $237.0 thousand for the three months ended March 31, 2007, while success fees received in cash increased by $301.3 thousand to $1.4 million for the three months ended March 31, 2007.

Operating Expenses

Compensation, commissions and benefits.

Compensation, commissions and benefits for the three months ended March 31, 2007 increased 42%, or $2.9 million, compared to the three months ended March 31, 2006. Compensation, commissions and benefits are correlated with our revenues, which increased 33% for the three months ended March 31, 2007, primarily as a result of the May 2006 Sterling Financial Acquisition. Additional increases in compensation, commissions and benefits are primarily attributable to increased salaries.

Clearing and transaction costs.

Clearing and transaction costs for the three months ended March 31, 2007 increased $166.8 thousand, or 18%, compared to the three months ended March 31, 2006, primarily as a result of an increase in transaction volume attributable to customer relationships acquired in the Sterling Financial Acquisition and the addition of other independent brokers, partially offset by a shift in our revenue mix to lower-cost institutional trading transactions as a result of the Sterling Financial Acquisition.

General and administrative costs.

General and administrative expenses for the three months ended March 31, 2007 increased $85.2 thousand in 2006, or 15%, compared to the three months ended March 31, 2006, primarily as a result of temporary labor and increased professional fees to support the Company's growth.

Occupancy and equipment costs.

Occupancy and equipment expenses for the three months ended March 31, 2007 increased $37.1 thousand, or 18%, compared to the three months ended March 31, 2006, primarily as a result of the occupancy and equipment costs associated with the May 2006 Sterling Financial Acquisition.

Depreciation and amortization.

Depreciation and amortization for the three months ended March 31, 2007 increased $196.4 thousand, or 161%, compared to the three months ended March 31, 2006, primarily as a result of the amortization expense associated with the customer relationships from the Sterling Financial Acquisition.

Other Income (Expense)

Other income (expense), net decreased to $1.1 thousand for the three months ended March 31, 2007 compared to $23.2 thousand for the three months ended March 31, 2007, primarily as a result of decreased interest income and increased interest expense. Interest income decreased as a result of a decrease in free cash balances during the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Interest expense increased primarily as a result of increased interest rates applicable to margin balances with our clearing firms.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have satisfied our liquidity and regulatory capital needs through the issuance of equity and debt securities. As of March 31, 2007, liquid assets consisted primarily of cash and cash equivalents of $5.2 million and marketable securities of $2.2 million, for a total of $7.4 million, which is approximately $2.0 million higher than $5.6 million in liquid assets as of December 31, 2006. As of March 31, 2007, we had long-term capital lease obligations of $102.5 thousand, net of current obligations of $218.4 thousand.

Both vFinance Investments and EquityStation are subject to the SEC Uniform Net Capital Rule (rule 15c3-1), which requires the maintenance of minimum net capital. Both vFinance Investments and EquityStation have elected to use the alternative standard method permitted by the rule. This method requires that vFinance Investments maintain minimum net capital equal to the greater of $250,000 or a specified amount per security based on the bid price of each security for which vFinance Investments is a market maker and requires EquityStation to maintain minimum capital equal to $100,000. As of March 31, 2007, vFinance Investments and EquityStation net capital exceeded the requirement by $808.0 thousand and $235.0 thousand, respectively.

Advances, dividend payments and other equity withdrawals from the Company's broker-dealer subsidiary are restricted by the regulations of the SEC and other regulatory agencies. These regulatory restrictions may limit the amounts that a broker-dealer subsidiary may dividend or advance to the Company.

Cash and cash equivalents increased by $1.0 million and $517.4 thousand during the three months ended March 31, 2007 and 2006, respectively. The major components of these changes are discussed below.

Cash provided by operating activities for the three months ended March 31, 2007 was $1.1 million compared to $578.6 thousand for the three months ended March 31, 2006. Cash provided by operating activities includes net income adjusted for non-cash items and the effects of changes in working capital including changes in trading securities. Cash provided by operating activities increased primarily as a result of increases in accrued compensation and securities sold, not yet purchased. We expect our cash and cash equivalents to decrease during the quarter ended June 30, 2006, as accrued commissions are paid and our securities sold, not yet purchased positions change with market conditions.

Cash used in investing activities for the three months ended March 31, 2007 was $10.2 thousand compared to $15.6 thousand for the three months ended March 31, 2006. Cash used in financing activities for the three months ended March 31, 2007 was $62.7 thousand compared to $45.6 thousand for the three months ended March 31, 2006, primarily as a result of increase capital lease payments.

We believe cash on hand is sufficient to meet our working capital requirements over the next twelve months. However, we may seek additional debt or equity financing in order to carry out our 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 thereof. We cannot be certain that additional debt or equity financing will be available when required or, if available, that we can secure it on terms satisfactory to us.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 1 to our Unaudited Condensed Consolidated Financial Statements.

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.

PART II. OTHER INFORMATION

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

On February 5, 2007, we issued 250,000 shares of our common stock and warrants to purchase 100,000 shares of our common stock at $0.30 per share to a public relations firm, as compensation for certain consulting services to be provided to the Company. The closing price of our common stock on the date prior to the date of issuance was $0.20 per share. The aggregate value of the shares issued was $50,000. Such securities were issued pursuant to an exemption provided by Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated thereunder.

ITEM 6. EXHIBITS

Number of Exhibit	Exhibit Description
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.

** Filed herewith.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Signature	Title	Date
/s/ Leonard J. Sokolow ------------------------- Leonard J. Sokolow	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	May 15, 2007
/s/ Alan B. Levin ------------------------- Alan B. Levin	Chief Financial Officer and (Principal Financial and Accounting Officer)	May 15, 2007

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