

ASSURANCEAMERICA CORP
Form 10KSB/A
July 07, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB/A

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the fiscal year ended March 31, 2003

Commission File Number: 0-06334

BRAINWORKS VENTURES, INC.

(Name of Small Business Issuer in its Charter)

NEVADA

(State or other Jurisdiction of
Incorporation or Organization)

87-0291240

(I.R.S. Employer
Identification No.)

**5500 INTERSTATE NORTH PARKWAY,
SUITE 600**

ATLANTA, GEORGIA

(Address of Principal Executive Offices)

30328

(Zip Code)

Registrant's Telephone Number including Area Code: (770) 952-0200

Securities Registered Pursuant to Section 12(b) of the Exchange Act:

Title of Each Class

NONE

Name of Each Exchange
on which Registered

NONE

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Securities Registered Pursuant to Section 12(g) of the Exchange Act:

COMMON STOCK, PAR VALUE \$0.01

(Title of Class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB/A or any amendment to this Form 10-KSB/A.

State issuer's revenues for its most recent fiscal year: \$40,000.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold in the over-the-counter market on June 25, 2003, was approximately \$2,297,375.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

As of June 25, 2003, the Registrant had outstanding 21,779,992 shares of its common stock, par value \$.01 per share.

Transitional Small Business Issuer Disclosure format (check one):

Yes No

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the Part of the Form 10-KSB/A (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933.

None

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PART I

Item 1.

DESCRIPTION OF BUSINESS

Overview

Brainworks Ventures, Inc., a Nevada corporation (the Company), provided funding and business consulting services to early-stage technology companies by developing, investing in, acquiring or acquiring interests in, and operating such companies. The Company also sought to work with universities, corporations, research laboratories, government economic authorities and individual investors to foster the commercialization of new concepts and technologies.

On April 1, 2003, AAHoldings Acquisition Sub, Inc., a Georgia corporation and a wholly-owned subsidiary of the Company, merged with and into AssuranceAmerica Corporation, a Georgia corporation (AssuranceAmerica), and a property and casualty-oriented holding company, focusing on the non-standard automobile insurance markets. AssuranceAmerica survived the merger and became a wholly-owned subsidiary of the Company.

To effect the merger, AAHoldings, LLC, a Delaware limited liability company, merged with and into AssuranceAmerica, for the purpose of converting the limited liability company into a corporation. Thereafter, pursuant to an Agreement and Plan of Merger and Reorganization by and among the Company, AAHoldings Acquisition Sub, Inc., AAHoldings, LLC and AssuranceAmerica, dated April 1, 2003 (the Merger Agreement), the shareholders of AssuranceAmerica exchanged an aggregate of 19,508,902 shares of AssuranceAmerica common stock, no par value, on a 1-for-1 basis, for shares of common stock, \$0.01 par value, per share, of the Company (Company Common Stock).

Due to an insufficient number of authorized shares of Company Common Stock, the shareholders of AssuranceAmerica continue to hold an aggregate of 23,241,098 shares of Series A Convertible Preferred Stock, no par value, of AssuranceAmerica (AssuranceAmerica Preferred Stock), which stock, pursuant to the terms of the Merger Agreement, will be converted into shares of Company Common Stock, at such time when the authorized number of shares of Company Common Stock is increased to a number sufficient to exchange each share of AssuranceAmerica Preferred Stock for one share of Company Common Stock. Upon conversion, the former shareholders of AssuranceAmerica will hold a total of 42,750,000 shares of Company Common Stock. Such conversion will occur simultaneously with the increase in the number of authorized shares of Company Common Stock. A special meeting of the stockholders of the Company was held on June 26, 2003 to vote upon a proposal to increase the number of authorized shares of Company Common Stock to permit such conversion of the AssuranceAmerica Preferred Stock. The proposal was approved by the shareholders.

The Merger Agreement also effected a change in the executive officers of the Company and contemplates a majority change in the Board of Directors of the Company. As of April 1, 2003, Marc Schwartz and Cole Walker resigned from their positions as directors and executive officers of the Company, with Donald Ratajczak remaining as the sole member of the Board of Directors of the Company. To fill these vacancies on the Board, Guy W. Millner and Lawrence Stumbaugh were appointed by Mr. Ratajczak as directors of the Company, following the fulfillment of the requirements of Rule 14f-1 of the Securities Exchange Act of 1934, as amended (the Exchange Act). On April 1, 2003, Mr. Stumbaugh was appointed as President and Chief Executive Officer of the Company.

As a result of the aforementioned merger, the Company has ceased its historical business in order to focus upon the insurance business of AssuranceAmerica. AssuranceAmerica focuses on the non-standard automobile insurance marketplace, primarily in Florida and Georgia. Its two principal operating subsidiaries are AssetAmerica Insurance Agencies (acquired in 1998), which sells personal automobile insurance policies through its 26 retail agencies, and AssuranceAmerica Managing General Agency. Established in 2000, AssuranceAmerica Managing General Agency develops and markets insurance products, underwrites insurance risks, adjusts insurance claims and binds new policies. In 2002, these two subsidiaries of AssuranceAmerica wrote an aggregate of approximately \$56 million dollars in premiums. A third subsidiary, AssuranceAmerica Insurance Company, began writing business in the state of Georgia in April, 2003.

On February 14, 2001, the Company acquired all the outstanding capital stock of eBusinessLabs, Inc., a privately-held Georgia corporation now known as Brainworks Ventures Labs, Inc. (BVL), for approximately 800,000 shares of the Company Common Stock. BVL seeks to develop university affiliated venture development labs designed to assist the launch of business ventures.

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On May 8, 2001, the Company acquired all the outstanding capital stock of Executive Venture Partners, Ltd., a privately held Massachusetts company (EVP), for 500,000 shares of the Company Common Stock. EVP provides consulting services to develop and implement corporate venturing strategies for Fortune 2,000 companies by offering advice and recommendations related to asset development and value maximization. EVP holds a non-exclusive license to use an asset commercialization methodology. This license may be revoked upon the happening of certain events specified in the Amended and Restated License Agreement between EVP and Robert H. Cawly dated March 6, 2001.

As of March 31, 2003, the Company had three wholly-owned subsidiaries: Auric Minerals Corporation, a Nevada corporation, EVP and BVL. The Company has ceased the operations of all three of its subsidiaries.

History

The Company originally incorporated in 1969 under the laws of the state of Utah. In 1985, the Company became a Nevada corporation by merging with a Nevada corporation that was a wholly-owned subsidiary of the Company created solely for the purpose of changing the Company's state of domicile. Prior to May 2000, the Company was principally engaged in the acquisition, exploration and development of interests in various natural resource properties, primarily through participation with other parties in natural resource joint ventures or other arrangements. During the fiscal year ended March 31, 2001, the Company sold its ownership interests in all natural resource properties held by the Company as described below.

Disposition of Interest in Ivanho Property

The Company also held a leasehold interest in 85,000 acres of property located near Elko, Nevada (the Ivanho Property). In October 2000, the Company sold its entire leasehold interest in the Ivanho Property to Mr. Fouts for \$200,000.

Employees

The Company currently has one full time employee and AssuranceAmerica has 149 full time employees. None of these employees are represented by a labor union.

Item 2.

DESCRIPTION OF PROPERTY

Effective August 31, 2002, the Company terminated its lease of 101 Marietta Street, Suite 3450, Atlanta, GA. The corporate headquarters of the Company and AssuranceAmerica is RiverEdge One, Suite 600, 550 Interstate North Parkway, Atlanta, Georgia 30328. The Company no longer holds interests in any natural resource properties.

Item 3.

LEGAL PROCEEDINGS

The Company is not a party to any pending legal proceedings.

Item 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matters to a vote of security holders during the quarter ended March 31, 2003.

PART II

Item 5.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company Common Stock is quoted on the Over-the-Counter Bulletin Board (OTC-BB) under the symbol BRAV. There is currently a very limited trading market for the Company Common Stock. The following sets forth, for the respective periods indicated, the high and low bid prices of the Company Common Stock in the over-the-counter market, as reported and summarized by the OTC-BB. Such prices are based on

inter-dealer bid and asked prices, without markup, markdown, commissions or adjustments, and may not represent actual transactions.

| <u>QUARTER ENDED</u> | <u>BID PRICES</u> | |
|----------------------|-------------------|------------|
| | <u>HIGH</u> | <u>LOW</u> |
| 2002 Fiscal Year: | | |
| June 30, 2001 | \$ 8.00 | \$ 3.85 |
| September 30, 2001 | 7.50 | 3.52 |
| December 31, 2001 | 4.50 | 2.00 |
| March 31, 2002 | 1.50 | 1.15 |
| 2003 Fiscal Year: | | |
| June 30, 2002 | \$ 1.65 | \$.70 |
| September 30, 2002 | .82 | .37 |
| December 31, 2002 | .51 | .21 |
| March 31, 2003 | .31 | .21 |

On June 3, 2003, the low and high bid prices quoted by broker-dealer firms effecting transactions in the Company Common Stock were \$ 0.75 and \$ 1.05, respectively.

The Company has never declared or paid cash dividends on its common stock and currently intends to retain any future earnings for the operation and expansion of its business. Any determination to pay cash dividends on the Company Common Stock will be at the discretion of the Board of Directors of the Company (the Board) and will be dependent on the Company's financial condition, results of operations, contractual restrictions, capital requirements, business prospects and such other factors as the Board deems relevant.

At June 3, 2003, there were approximately 770 holders of record of the Company Common Stock.

(1)

Item 6.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Certain statements contained in this Annual Report on Form 10-KSB/A are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and are thus prospective in nature. The words believe, expect, anticipate, predict, potential, seek, continue, will, may, could, intend, plan, estimate, and the negative thereof and other similar expressions are intended to identify forward-looking statements. Such forward-looking statements reflect management's beliefs and assumptions and are based on information currently available to management. The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to differ materially from those expressed or implied in such statements. There can be no assurance that such factors or other factors will not affect the accuracy of such forward-looking statements. The Company does not assume any duty to publicly update these forward-looking statements. The Company strongly recommends that the discussion and analysis set forth below be read in conjunction with the Company's consolidated financial statements and notes thereto contained elsewhere herein.

Overview

The Company provided funding and business consulting services to early stage development companies by developing, investing in, acquiring or acquiring interest in and operating such companies. The Company previously made equity investments in three start-up companies. The Company also provided consulting services to commercialize new concepts and intellectual property developed by universities, research laboratories and other large commercial companies.

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During the past two years, the Company has incurred significant losses from operations and such losses are expected to continue. Due to the lack of adequate working capital and business prospects, in 2003, the Board decided to cease operating its historical businesses in anticipation of consummating a merger with AssuranceAmerica on April 1, 2003. Since the consummation of the merger with AssuranceAmerica, the Company has focused upon offering automobile insurance coverages through the operating subsidiaries of AssuranceAmerica. The operating subsidiaries of AssuranceAmerica include: AssuranceAmerica Managing General Agency, AssuranceAmerica Insurance Company, and AssetAmerica Insurance Agencies.

Revenues

In the fiscal years ended March 31, 2003 and 2002, the Company's revenues consisted of dividend and interest income and income from consulting services. All of the Company's consulting contracts have been terminated.

Operating Expenses

Selling, general and administrative expenses consist primarily of consulting expenses, administrative and management personnel and related expenses, and depreciation and amortization expense.

Results of Operations

For the fiscal year ended March 31, 2003, the Company had revenues of \$40,000, cost of revenue and selling, general and administrative expenses of \$802,000, and other net expenses of \$511,000, including impairment cost related to goodwill of \$267,000, loss on disposal of fixed assets of \$212,000 and a realized loss of \$33,000 on the disposition of an investment. The Company's operations resulted in a net loss of \$1,273,000 and a net loss per common share of \$0.53. For the fiscal year ended March 31, 2002, the Company had revenues of \$610,000, cost of revenue and selling, general and administrative expenses of \$3,739,000, and other net expenses of \$1,850,000, including impairment cost related to goodwill of \$1,630,000, and a realized loss of \$238,000 on the disposition of an investment. The Company's operations resulted in a net loss of \$4,979,000 and a net loss per common share of \$2.01.

Management does not believe that the Company's operations have been impacted by inflation.

Liquidity and Capital Resources

In the fiscal year ended March 31, 2003, net cash used in operating activities was \$446,000. Net cash used in operating activities includes the net loss for the fiscal year ended March 31, 2003 of \$1,273,000 offset by non-cash charges related to depreciation and amortization of \$33,000, amortization of deferred compensation for warrants and options issued to advisors and consultants of \$375,000 and asset impairment charges of \$267,000. Net cash provided by investing activities was \$54,000, which is associated with the sale of equipment and investments.

As of March 31, 2003, the Company had working capital of \$(15,000). Management believes the company has adequate capital to meet its operating needs.

Item 7.

FINANCIAL STATEMENTS

The Company's consolidated financial statements (see Index to Financial Statements attached hereto) for the fiscal year ended March 31, 2003, together with the notes thereto, have been audited by the independent accounting firm of Miller Ray & Houser, LLP, whose opinion thereto is included herein, which is included in this Report beginning at page F-1 hereof. The Company's consolidated financial statements for the fiscal year ended March 31, 2002, together with the notes thereto, have been audited by the independent accounting firm of Eisner, LLP, which were included in the Company's 10-QSB for the fiscal year ending March 31, 2002.

Item 8.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the fiscal year ended March 31, 2003, there was no disagreement with the Company's accountants on any matter of accounting principles or practices or financial statement disclosure required to be disclosed pursuant to Item 304 of Regulation S-B.

PART III**Item 9.****DIRECTORS, EXECUTIVE OFFICERS, PROMOTORS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT****Officers and Directors**

The table below sets forth the name, age and position of each executive officer and director of the Company:

| Name | Age | Position | Officer or Director Since |
|--------------------|------------|---|----------------------------------|
| Guy W. Millner | 67 | Chairman | June 2003 |
| Lawrence Stumbaugh | 63 | President, Chief Executive Officer and Director | June 2003 |
| Donald Ratajczak | 60 | Director | May 2000 |
| Quill O. Healey | 63 | Director | June 2003 |
| John E. Cay, III | 58 | Director | June 2003 |
| Robert J. Cormican | 55 | Senior Vice President and Chief Financial Officer | June 2003 |

Set forth below is a brief biographical description of the directors and officers of the Company:

Guy W. Millner, age 67, has served as the Chairman of the Board since June 2003. Mr. Millner served as Chairman of AA Holdings, LLC, the predecessor of AssuranceAmerica, the Company's principal operating subsidiary, from 1999 to 2003. From 1961 to 1999, Mr. Millner served as Chairman of Norrell Corporation, a leading provider of staffing and outsourcing solutions.

Lawrence Stumbaugh, age 63, has served as President, Chief Executive Officer and director of the Company since June 2003. He served as President and Chief Executive Officer of AA Holdings, LLC from 1999 to 2003. Prior to joining AA Holdings, LLC, Mr. Stumbaugh was President and Chief Executive Officer of Lawmark International Corporation.

Donald Ratajczak, age 60, serves as a Director of the Company. Dr. Ratajczak previously served as the Chairman of the Board and Chief Executive Officer of the Company from May 2000 to June 2003. From May 2000 to November 2000, Dr. Ratajczak also served as the Company's President. From July 1973 to June 2000, he served as a professor and Director of Economic Forecasting Center at the J. Mack Robinson College of Business Administration at Georgia State University. Dr. Ratajczak also currently serves on the Board of Directors of the following organizations: Crown Crafts, Inc., a textile manufacturing company; T.B.C. Corporation, a tire distribution company, Ruby Tuesday, Inc., a food service company and Regan Holdings, an insurance marketing company. He is a consulting economist for Morgan, Keegan & Co., a broker/dealer company and a trustee for C.I.M. High Yield, a bond fund company.

Quill O. Healey, age 63, has served as a director of the Company since June 2003. He is Managing Partner of Healey Investments, L.P. He retired as Chairman of Marsh, USA in 2001.

John E. Cay, III, age 58, has served as a director of the Company since June 2003. He is Chairman and Chief Executive Officer of Palmer & Cay, Inc., a risk management and benefits consulting firm.

Robert J. Cormican, age 55, has served as Senior Vice President and Chief Financial Officer of the Company since June 2003. Prior to joining the Company, Mr. Cormican served as Senior Vice President and Chief Financial Officer of AA Holdings, LLC.

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There are no family relationships among any of the executive officers or directors of the Company. Each director of the Company serves as a director until his successor is elected and qualified at the Company's next annual meeting of stockholders.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and persons who own beneficially more than 10% of a registered class of the Company's equity securities to file with the Securities and Exchange Commission (the SEC) initial reports of ownership and reports of changes in ownership of such securities of the Company. Directors, executive officers and greater than 10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports they file.

To the Company's knowledge, the Section 16(a) filing requirements applicable to its directors, executive officers and greater than 10% beneficial owners were complied with during the fiscal year ended March 31, 2003.

Item 10.

EXECUTIVE COMPENSATION

Compensation of Directors

For the fiscal year ended March 31, 2003, the Company did not compensate directors for their service on the Board.

Compensation of Executive Officers

The following table sets forth the cash and non-cash compensation awarded or paid by the Company for services rendered during each of the fiscal years in the three-year period ended March 31, 2003, to its Chief Executive Officer and to its most highly compensated executive officers other than the Chief Executive Officer whose annual compensation exceeded \$100,000 (the Named Executive Officers).

Summary Compensation Table

| Name and Principal Position | Year Ended March 31, | Annual Compensation | | Long-Term Compensation | |
|---|----------------------|---------------------|---------|---------------------------------------|------------------------|
| | | Salary | Bonus | Securities Underlying Options (#) (1) | All Other Compensation |
| Donald Ratajczak(2) Chief Executive Officer | 2003 | \$ | \$ | | \$ |
| | 2002 | | | | |
| | 2001 | | | 110,000 | |
| Marc J. Schwartz(3) President, Chief Financial Officer Secretary and Treasurer | 2003 | 35,000 | | | |
| | 2002 | | | 110,000 | |
| | 2001 | | 350,000 | 110,000 | |

(1)

Unless otherwise noted, represents options granted under the Company's Stock Option Plan.

(2)

Dr. Ratajczak began serving as Chief Executive Officer of the Company in May 2000. Dr. Ratajczak also served as President of the Company from May 2000 to November 2000.

(3)

Mr. Schwartz began serving as an executive officer of the Company in May 2000. Effective March 31, 2003, Mr. Schwartz resigned all positions that he held in the Company.

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Option Grants in the Last Fiscal Year

During the fiscal year ended March 31, 2003, the Company did not grant any stock options to either of the Named Executive Officers.

Year-End Option Values

Neither of the Named Executive Officers exercised any stock options during the fiscal year ended March 31, 2003. The following table sets forth information concerning the value at March 31, 2003, of unexercised options held by each Named Executive Officer.

| Name | Number Of Securities Underlying Unexercised Options at March 31, 2003 Exercisable/Unexercisable | Value Of Unexercised In-The-Money Options at March 31, 2003(1) Exercisable/Unexercisable |
|----------------------|--|---|
| Donald Ratajczak | 260,000/0 | 0/0 |
| Marc J. Schwartz (2) | 210,000/0 | \$0/0 |

(1)

The value of the Company's unexercised, in-the-money options based on the average of the high and low price of the Company Common Stock as of March 31, 2003, which was \$0.25.

(2)

Effective March 31, 2003, Mr. Schwartz resigned all positions that he held with the Company.

Item 11.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table provides information concerning beneficial ownership of the Company Common Stock as of June 15, 2003, by:

each shareholder that the Company knows owns more than 5% of the Company Common Stock;

each of the Named Executive Officers;

each of the Company's directors; and

all of the Company's directors and Named Executive Officers as a group.

The following table lists the applicable percentage of beneficial ownership based on 21,779,992 shares of Company Common Stock outstanding as of June 15, 2003. Except where noted, the persons or entities named have sole voting and investment power with respect to all shares shown as beneficially owned by them.

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| Name Of Beneficial Owner (1) | Number of Shares of Common Stock Beneficially Owned | Percentage |
|---|---|------------|
| Guy W. Millner | 16,442,924 (2) | 75.50 % |
| Lawrence Stumbaugh | 2,901,693 (3) | 13.32 % |
| Donald Ratajczak | 138,000 | * |
| Sercap Holdings, LLC | 19,344,617 (4) | 88.82 % |
| Directors and executive officers as a group (3 persons) | 19,482,617 | 89.45 % |

*

Less than 1.0%.

(1)

The address of each beneficial owner is RiverEdge One, Suite 600, 5500 Interstate North Parkway, Atlanta, Georgia 30328.

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(2)

Consists of indirect beneficial ownership by Mr. Millner of 16,442,924 shares of Company Common Stock held by Sercap Holdings, LLC (Sercap). Mr. Millner directly owns 80% of the outstanding membership interests in Sercap and indirectly owns an additional 5% of the outstanding membership interests through MI Holdings, Inc, a corporation controlled by Mr. Millner.

(3)

Consists of indirect beneficial ownership by Mr. Stumbaugh of 2,901,693 shares of Company Common Stock held by Sercap. Mr. Stumbaugh owns 15% of the outstanding membership interests in Sercap.

(4)

These shares are also included in Messrs. Millner's and Stumbaugh's holdings.

The following table sets forth information regarding compensation plans under which the Company Common Stock is authorized for issuance as of March 31, 2003. The Company's stockholders approved the BrainWorks Ventures Inc. Stock Option Plan (the Plan) at the Company's 2000 annual meeting of stockholders. The Plan is the Company's only equity compensation plan approved by the Company's stockholders.

| | Number of securities to be issued upon exercise of outstanding options and warrants | Weighted-average exercise price of outstanding options and warrants | Number of securities remaining available for issuance under equity compensation plans |
|--|--|--|--|
| | <hr/> | <hr/> | <hr/> |
| Equity compensation plans approved by securities holders | 693,918 | \$ 4.73 per share | 4,306,082 |
| Equity compensation plans not approved by securities holders | 0 | | 0 |
| TOTAL | 693,918 | \$ 4.73 per share | 4,306,082 |

Item 12.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

Item 13.

EXHIBITS, LIST AND REPORTS ON FORM 8-K

No reports filed on Form 8-K for fiscal year ended March 31, 2003.

(A)

Exhibits

Exhibit

Number

Exhibit

| | |
|------|---|
| 2.1 | Agreement and Plan of Merger and Reorganization dated April 1, 2003, by and among the Company, AAHoldings Acquisition Sub, Inc., AAHoldings, LLC and AssuranceAmerica Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on April 16, 2003). |
| 2.2 | Agreement and Plan of Merger dated December 29, 2000, by and among the Company, eBusinessLabs, Inc. (EBL), EBL Acquisition Corporation and certain stockholders of EBL signatory thereto (incorporated by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000). |
| 2.3 | Agreement and Plan of Merger dated May 8, 2001, by and among the Company, Executive Venture Partners, Ltd. (EVP), EVP Acquisition Corporation and the stockholders of EVP signatory thereto (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 23, 2001). |
| 3.1 | Amended and Restated Articles of Incorporation of the Company. |
| 3.2 | By-Laws of the Company (incorporated by reference to the Company's Form 10 filed on May 30, 1972). |
| 3.3 | Amendment to the Company's By-Laws adopted February 14, 2001 (incorporated by reference to Exhibit 3ii to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000). |
| 3.4 | Amendment to the Company's By-Laws adopted June 26, 2003. |
| 10.1 | Amended and Restated License Agreement dated March 6, 2001, by and between EVP and Robert H. Cawly (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-KSB for the year ended March 31, 2001). |
| 10.2 | Brainworks Ventures, Inc. Stock Option Plan (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement filed on October 20, 2000.) |
| 21.1 | List of Subsidiaries. |
| 99.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

(B)

REPORTS ON FORM 8-K

During the quarter ended March 31, 2002, the Company did not file any Current Reports on Form 8-K.

Item 14.

CONTROLS AND PROCEDURES

Within the 90 days prior to the date of filing of this annual report on Form 10-KSB/A, the Company's Chief Executive Officer and its Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REGISTRANT:

BRAINWORKS VENTURES, INC.

Date: July 3, 2003

By:

/s/ Lawrence Stumbaugh

Lawrence Stumbaugh,
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Name</u> | <u>Title</u> | <u>Date</u> |
|---|--|--------------------|
| <u>/s/ Lawrence Stumbaugh</u> Lawrence Stumbaugh | Chief Executive Officer and Director (Principal Executive Officer) | Date: July 3, 2003 |
| <u>/s/ Robert J. Cormican</u> Robert J. Cormican | Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer) | Date: July 3, 2003 |
| <u>/s/ Guy W. Millner</u> Guy W. Millner | Chairman of the Board of Directors | Date: July 3, 2003 |
| <u>/s/ Donald Ratajczak</u> Donald Ratajczak | Director | Date: July 3, 2003 |
| <u>/s/ Quill O. Healey</u> Quill O. Healey | Director | Date: July 3, 2003 |
| <u>/s/ John E. Cay , III</u> John E. Cay, III | Director | Date: July 3, 2003 |

CERTIFICATION

I, Lawrence Stumbaugh, certify that:

1.

I have reviewed this annual report on Form 10-KSB/A of Brainworks Ventures, Inc.;

2.

Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3.

Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4.

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a)

designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b)

evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c)

presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a)

all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.

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The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 3, 2003

/s/ Lawrence Stumbaugh

Lawrence Stumbaugh
Chief Executive Officer

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CERTIFICATION

I, Robert J. Cormican, certify that:

1.

I have reviewed this annual report on Form 10-KSB/A of Brainworks Ventures, Inc.;

2.

Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3.

Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4.

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a)

designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b)

evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c)

presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a)

all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.

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The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 3, 2003

/s/ Robert J. Cormican

Robert J. Cormican

Senior Vice President and Chief Financial Officer

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BRAINWORKS VENTURES, INC. AND SUBSIDIARIES

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Report of Independent Public Accountants

**To the Board of Directors and Stockholders of
Brainworks Ventures, Inc. and Subsidiaries**

We have audited the consolidated balance sheet of Brainworks Ventures, Inc. and subsidiaries as of March 31, 2003, and the related consolidated statements of operations, changes in stockholder's equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Brainworks Ventures, Inc. and subsidiaries as of March 31, 2002, were audited by other auditors whose report dated June 12, 2002, on those statements included an explanatory paragraph describing conditions that raised substantial doubt about the Company's ability to continue as a going concern.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brainworks Ventures, Inc. and subsidiaries as of March 31, 2003 and the results of its consolidated operations and its consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Miller Ray & Houser, LLP

Atlanta, Georgia

May 7, 2003

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BRAINWORKS VENTURES, INC. AND SUBSIDIARIES**Consolidated Balance Sheets**

March 31, 2003 and 2002

Assets

| | <u>2003</u> | <u>2002</u> |
|--|---------------------|---------------------|
| Current assets: | | |
| Cash | \$ 5,000 | \$ 397,000 |
| Accounts receivable | 10,000 | 6,000 |
| Due from employees | | 11,000 |
| Prepaid expenses and other current assets | | 38,000 |
| | <hr/> | <hr/> |
| Total current assets | 15,000 | 452,000 |
| Fixed assets, net | 5,000 | 294,000 |
| Investments in non-marketable equity securities | | 43,000 |
| Goodwill | | 267,000 |
| | <hr/> | <hr/> |
| Total assets | \$ 20,000 | \$ 1,056,000 |
| | <hr/> | <hr/> |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 30,000 | \$ 168,000 |
| | <hr/> | <hr/> |
| Stockholders' equity (deficit): | | |
| Common Stock, \$0.01 par value; authorized 25,000,000 shares; 2,271,090 and 2,561,186 issued and outstanding | 23,000 | 26,000 |
| Additional paid-in capital | 7,877,000 | 7,884,000 |
| Accumulated deficit | (7,910,000) | (6,637,000) |
| Deferred compensation | | (375,000) |
| Receivables for stock | | (10,000) |
| | <hr/> | <hr/> |
| Total stockholders' equity (deficit) | (10,000) | 888,000 |
| | <hr/> | <hr/> |
| Total liabilities and stockholders' equity | \$ 20,000 | \$ 1,056,000 |
| | <hr/> | <hr/> |

BRAINWORKS VENTURES, INC. AND SUBSIDIARIES**Consolidated Statements of Operations****For the Years Ended March 31, 2003 and 2002**

| | <u>2003</u> | <u>2002</u> |
|---|-------------------------------|------------------------|
| Revenue | \$ 40,000 | \$ 610,000 |
| Operating costs and expenses: | | |
| Cost of revenue | 15,000 | 549,000 |
| Selling, general and administrative | 787,000 | 3,190,000 |
| Impairment of goodwill | 267,000 | 1,630,000 |
| | <u>1,069,000</u> | <u>5,369,000</u> |
| Loss from operations | (1,029,000) | (4,759,000) |
| Interest expense | (1,000) | |
| Interest and dividends | 2,000 | 18,000 |
| Loss on disposal of fixed assets | (212,000) | |
| Realized loss on investments | (33,000) | (238,000) |
| | <u>\$ (1,273,000)</u> | <u>\$ (4,979,000)</u> |
| Net loss | | |
| Net loss per common share-basic and diluted | <u>\$ (0.53)</u> | <u>\$ (2.01)</u> |
| Weighted average number of shares outstanding-basic and diluted | <u>2,412,000</u> | <u>2,475,000</u> |

BRAINWORKS VENTURES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended March 31, 2003 and 2002

| | Common Stock | | Additional Paid in Capital | Accumulated Deficit | Deferred Compensation | Receivables for Stock | | Total |
|---|--------------|-----------|----------------------------------|------------------------|--------------------------|-----------------------------|-------|--------------|
| | Shares | Amount | | | | Stock | Total | |
| Balance, March 31, 2001 | 1,950,000 | \$ 19,000 | \$ 6,279,000 | \$(1,658,000) | \$(917,000) | \$(62,000) | | \$ 3,661,000 |
| Issuance of common stock in a private placement | 144,918 | 2,000 | 423,000 | | | | | 425,000 |
| Issuance of common stock in EVP merger | 500,000 | 5,000 | 549,000 | | | | | 554,000 |
| Fair value of options granted to consultants and advisors | | | 617,000 | | (617,000) | | | |
| Collection on subscription receivable | | | | | | 14,000 | | 14,000 |
| Cancellation of subscription | (42,732) | | (38,000) | | | 38,000 | | |
| Shares issued for services and equipment | 9,000 | | 54,000 | | | | | 54,000 |
| Amortization of deferred compensation | | | | | 1,159,000 | | | 1,159,000 |
| Net loss | | | | (4,979,000) | | | | (4,979,000) |
| Balance, March 31, 2002 | 2,561,186 | 26,000 | 7,884,000 | (6,637,000) | (375,000) | (10,000) | | 888,000 |
| Cancellation of subscription | (9,846) | | (10,000) | | | 10,000 | | |
| Amortization of deferred compensation | | | | | 375,000 | | | 375,000 |
| Shares returned and cancelled | (280,250) | (3,000) | 3,000 | | | | | |
| Net loss | | | | (1,273,000) | | | | (1,273,000) |
| Balance, March 31, 2003 | 2,271,090 | \$ 23,000 | \$ 7,877,000 | \$(7,910,000) | \$ | \$ | | \$(10,000) |

See accompanying notes and report of independent public accountants.

BRAINWORKS VENTURES, INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the Years Ended March 31, 2003 and 2002**

| | <u>2003</u> | <u>2002</u> |
|--|------------------------|------------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (1,273,000) | \$ (4,979,000) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation | 33,000 | 87,000 |
| Amortization | | 1,137,000 |
| Stock issued for services | | 21,000 |
| Loss on disposal of fixed assets | 212,000 | |
| Impairment of goodwill | 267,000 | 1,630,000 |
| Realized loss on investments | 33,000 | 238,000 |
| Deferred compensation amortization | 375,000 | 1,159,000 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (4,000) | 86,000 |
| Due from employees | 11,000 | 3,000 |
| Prepaid expenses and other current assets | 38,000 | (11,000) |
| Accounts payable and accrued expenses | (138,000) | (172,000) |
| Net cash used by operating activities | (446,000) | (801,000) |
| Cash flows from investing activities: | | |
| Purchase of equipment | | (5,000) |
| Proceeds from sale of equipment | 44,000 | 5,000 |
| Proceeds from sale of investments | 10,000 | |
| Net cash paid on acquisitions | | (77,000) |
| Net cash provided (used) by investing activities | 54,000 | (77,000) |
| Cash flows from financing activities: | | |
| Collection of note receivable from officer | | 225,000 |
| Proceeds from sale of common stock | | 425,000 |
| Collection of subscriptions receivable | | 14,000 |
| Net cash provided by financing activities | | 664,000 |
| Net decrease in cash | (392,000) | (214,000) |
| Cash, beginning of year | 397,000 | 611,000 |

| | | |
|--------------------------|-----------------|------------|
| Cash, end of year | \$ 5,000 | \$ 397,000 |
|--------------------------|-----------------|------------|

Supplemental Disclosure of Cash Flow Information

Cash paid for:

| | | |
|--|-----------|------------|
| Interest | \$ 1,000 | \$ |
| Non-Cash Investing and Financing Activities | | |
| Issuance of options and warrants | \$ | \$ 617,000 |
| Issuance of stock for acquisition | \$ | \$ 554,000 |
| Cancellation of stock subscription | \$ 10,000 | \$ 38,000 |
| Note and accounts receivable converted to investment in non-marketable equity securities | \$ | \$ 76,000 |
| Issuance of stock for equipment | \$ | \$ 54,000 |

See accompanying notes and report of independent public accountants.

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BRAINWORKS VENTURES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2003 and 2002

(1)

Summary of Significant Accounting Policies

Organization and Nature of Operations

Brainworks Ventures, Inc. (Brainworks), together with its subsidiaries, referred to as the Company, is a Nevada corporation that ceased operations as of March 31, 2003. The Company formerly provided funding and business consulting services to early stage technology companies. As described in note 9, effective April 1, 2003, the Company has entered the property and casualty insurance industry through a merger with AssuranceAmerica Corporation.

On February 14, 2001, Brainworks acquired Brainworks Ventures Labs, Inc., formerly known as eBusinessLabs, Inc. (BVL), which formerly provided business-consulting services to early stage technology companies.

On May 8, 2001, the Company acquired Executive Venture Partners, Ltd. (EVP), which formerly provided consulting services to develop and implement corporate venturing strategies to corporations and research laboratories.

The acquisitions were accounted for under the purchase method of accounting.

Basis of Presentation

The consolidated financial statements include the accounts of its wholly-owned subsidiaries, BVL, EVP (from May 8, 2001) and Auric Minerals Corporation (which is currently inactive). All intercompany balances and transactions have been eliminated.

Cash

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments consist of equity securities classified as available for sale. Investments in non-marketable securities are carried at cost as adjusted for declines in value which are other than temporary in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Realized gains and losses on sales of investments are included in earnings and are determined on the specific identification method.

Fixed Assets

Fixed assets, consisting of office equipment, furniture and fixtures and leasehold improvements, are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the term of the lease or useful life of the improvements.

BRAINWORKS VENTURES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1)

Summary of Significant Accounting Policies, continued

Goodwill

The Company adopted SFAS No. 142, Goodwill and Other Intangible Assets, on April 1, 2002. Under SFAS No. 142, goodwill, which represents the excess of purchase price over fair value of net assets acquired, and intangible assets with indefinite useful lives are no longer amortized but will be tested for impairment at least on an annual basis in accordance with the provisions of SFAS No. 142.

Goodwill is tested for impairment at least on an annual basis. The impairment test involves a comparison of the fair value of each of the reporting units as defined under SFAS No. 142, with its carrying amount. If an asset's carrying amount exceeds its fair value, then such asset is considered to be impaired. The impairment to be recognized is measured by the amount by which the carrying value of the reporting entity being measured exceeds its fair value, up to the total amount of its assets. The Company expects to perform its impairment tests during the fourth quarter of each year.

Prior to April 1, 2002, goodwill was amortized on a straight-line basis over the expected period to be benefited, which was estimated to be three years.

Revenue Recognition

Revenue is generated from consulting fees and is recognized when services are performed by the Company.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, which requires recognition of deferred tax liabilities and assets for expected future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax basis. Deferred tax liabilities and assets are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized.

Stock-Based Compensation

The Company has adopted SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). The provisions of SFAS 123 allow companies to either expense the estimated fair value of employee stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), but disclose the pro forma effects on net income had the fair value of the options been expensed. The Company has elected to apply APB No. 25 in accounting for its employee stock option grants.

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BRAINWORKS VENTURES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements, Continued**

(1)

*Summary of Significant Accounting Policies, continued***Net Loss Per Share**

Basic and diluted loss per common share is computed using the weighted average number of common shares outstanding during the period. Stock options and warrants have not been included in the diluted loss per share calculation as their inclusion would have been antidilutive. Potential common shares not included in the calculation of net loss per share for the year ended March 31, 2003, and 2002 are as follows:

| | 2003 | 2002 |
|---------------|----------------|-----------|
| Warrants | 245,000 | 535,000 |
| Stock options | 705,000 | 1,452,000 |
| | 950,000 | 1,987,000 |

Financial Instruments

The carrying amounts of cash, accounts receivable, amounts due from employees, prepaid expenses and other current assets, investments in non-marketable equity securities, and accounts payable and accrued expenses approximate their fair value based on the nature of those items.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in United States of America 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 those estimates.

Recent Accounting Pronouncements

The Company adopted SFAS No. 141, *Business Combinations*. Under SFAS No. 141, all acquisitions subsequent to June 30, 2001, must be accounted for under the purchase method of accounting and goodwill is no longer amortized but is reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets acquired in a business combination that are not deemed to have an indefinite life will continue to be amortized over their useful lives.

BRAINWORKS VENTURES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements, Continued**

(2)

Acquisitions

On May 8, 2001, Brainworks consummated its acquisition of EVP. The transaction was accounted for under the purchase method of accounting. EVP was acquired for 500,000 shares of Brainworks common stock with a fair value of \$554,000.

The fair value was based on an independent appraisal and the purchase price was substantially attributed to goodwill. The stock issued in the acquisition is entitled to piggy-back registration rights. Certain shareholders of EVP were also shareholders or directors of Brainworks prior to the acquisition. Such shareholders or directors received 390,000 shares of the total shares exchanged in the acquisition of EVP.

The assets acquired, liabilities assumed and the cost of the acquisition was as follows:

| | |
|---|-------------------|
| Assets acquired: | |
| Other current assets | \$ 51,000 |
| Fixed assets | 6,000 |
| Goodwill | 575,000 |
| | <hr/> |
| | \$ 632,000 |
| | <hr/> |
| Liabilities assumed and acquisition costs: | |
| Common stock issued to EVP stockholders at fair value | \$ 544,000 |
| Transaction costs | 78,000 |
| | <hr/> |
| | \$ 632,000 |
| | <hr/> |

(3)

Fixed Assets

Fixed assets at March 31, 2003 and 2002 are as follows:

| | 2003 | 2002 | Estimated Useful Life | Years |
|-------------------------------|-----------------|------------|--------------------------|-------|
| | <hr/> | <hr/> | | |
| Computer equipment | \$ 5,000 | \$ 97,000 | 3 | |
| Furniture and fixtures | 3,000 | 81,000 | 5 | |
| Leasehold improvements | | 215,000 | | |
| | <hr/> | <hr/> | | |
| | 8,000 | 393,000 | | |
| Less accumulated depreciation | (3,000) | (99,000) | | |
| | <hr/> | <hr/> | | |
| | \$ 5,000 | \$ 294,000 | | |
| | <hr/> | <hr/> | | |

Depreciation and amortization expense on fixed assets for the years ended March 31, 2003 and 2002 was \$33,000 and \$87,000, respectively.

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BRAINWORKS VENTURES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(4)

Investments

The investments consist of non-marketable equity securities and are carried at cost as adjusted for declines in value which are other than temporary. The Company determined the decline in the fair value of the non-marketable securities to be other than temporary and recorded a realized loss of \$33,000 and \$238,000 for the years ended March 31, 2003 and 2002, respectively.

(5)

Goodwill

Goodwill acquired in the acquisitions of BVL and EVP of approximately \$2,580,000 and \$575,000, respectively, was recorded at the date of the acquisitions.

For the year ended March 31, 2002, the Company recorded amortization expense related to goodwill of \$1,137,000 based on an estimated useful life of three years. The Company also recorded an impairment charge related to goodwill of \$1,630,000 for the year ended March 31, 2002.

In accordance with SFAS No. 142 the Company recorded an impairment charge related to goodwill of \$267,000 for the year ended March 31, 2003.

(6)

Stock Options

Stock Options Plan

Options to purchase common stock under the Company's 2000 Stock Option Plan (the Plan) can be granted to employees and directors. Under the Plan, up to 5,000,000 shares may be granted. The Plan is administered by the Board of Directors, which determines the terms of the options granted, including the exercise price, the number of shares subject to option, and the option vesting period. The exercise price of all options granted under the plan must be at least 100% of the fair market value on the date of grant. Options generally have a maximum term of five to six years and vest over two years.

Value of Options Granted to Employees

For disclosure purposes, the fair value of all stock options granted is estimated using the Black-Scholes option-pricing model. No stock options were granted by the Company for the year ended March 31, 2003. The following weighted average assumptions were used for stock options granted by the Company during the year ended March 31, 2002:

| | |
|--------------------------|--------|
| Annual dividends | 0 % |
| Expected Volatility | 186 % |
| Risk-free interest rate | 4.59 % |
| Expected life (in years) | 5.37 % |

BRAINWORKS VENTURES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements, Continued**

(6)

*Stock Options, continued***Value of Options Granted to Employees, continued**

If compensation cost had been determined on the basis of fair value pursuant to SFAS 123, then net loss attributable to common stockholders and net loss per share attributable to common stockholders would have increased for the years ended March 31, 2003 and 2002 as follows:

| | (In thousands, except per share data) | |
|---------------------------------------|--|-------------|
| | 2003 | 2002 |
| Net loss: | | |
| As reported | \$ (1,273) | \$ (4,979) |
| Pro forma | \$ (1,273) | \$ (6,874) |
| Basic and diluted net loss per share: | | |
| As reported | \$ (.53) | \$ (2.01) |
| Pro forma | \$ (.53) | \$ (2.78) |

Following is a summary of stock option and warrant activity during each of the years ended March 31, 2003 and 2002:

| | 2003 | | | | 2002 | | | |
|----------------------------------|---|---------------|--|--|-------------------------------------|---------------|--|--|
| | Range of Exercise Prices | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Range of Exercise Prices | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
| Outstanding at beginning of year | \$1.125 - \$7.75 | 1,552,000 | \$ 5.10 | 3.8 years | \$1.125 - \$7.75 | 1,391,000 | \$ 5.10 | 4.5 years |
| Granted during the year | | | | | \$ 4.25 - \$6.50 | 321,000 | \$ 5.19 | |
| Expired | \$1.125 - \$7.70 | (602,000) | \$ 5.47 | | \$ 5.25 - \$5.25 | (160,000) | \$ 5.25 | |
| Exercised | | | | | | | | |
| Outstanding at end of year | \$1.125 - \$7.75 | 950,000 | \$ 4.41 | 2.71 years | \$1.125 - \$7.75 | 1,552,000 | \$ 5.10 | 3.8 years |
| Exercisable at end of year | \$1.125 - \$7.75 | 950,000 | \$ 4.41 | 2.71 years | \$1.125 - \$7.75 | 1,057,000 | \$ 4.90 | 3.2 years |

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Following is a summary of options and warrants outstanding as of March 31, 2003:

| Options and Warrants Outstanding | | | Options and Warrants Exercised | | |
|----------------------------------|--------------------|---|---------------------------------|--------------------|---------------------------------|
| Range of Exercise Prices | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| \$1.125 - \$3.00 | 250,000 | 2.09 | \$2.25 | 250,000 | \$2.25 |
| \$ 3.90 - \$5.00 | 131,000 | 1.50 | \$4.26 | 131,000 | \$4.26 |
| \$ 5.25 - \$7.75 | 569,000 | 3.26 | \$5.40 | 569,000 | \$5.40 |

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BRAINWORKS VENTURES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(7)

Income Taxes

The following table summarizes the significant differences between the U.S. Federal statutory tax rate and the Company's effective tax rate:

| | Year Ended | |
|------------------------------------|------------|--------|
| | March 31, | |
| | 2003 | 2002 |
| Federal statutory rate | (34)% | (34)% |
| State taxes, net of federal effect | (4) | (4) |
| Permanent difference | 17 | 19 |
| Net change in valuation allowance | 21 | 19 |
| Effective tax rate | 0 % | 0 % |

Deferred tax assets and liabilities are determined based on the difference between the financial accounting and tax bases of assets and liabilities. Significant components of the Company's deferred tax assets as of March 31, 2003 and 2002 are as follows:

| | 2003 | 2002 |
|---|--------------|--------------|
| Deferred tax assets: | | |
| Net operating loss and research and experimentation credit carry forwards | \$ 1,151,000 | \$ 870,000 |
| Intangible assets | 1,031,000 | |
| Non qualified stock options and warrants granted | | 940,000 |
| Loss recorded on investments | | 90,000 |
| Depreciation | | 11,000 |
| | 2,182,000 | 1,911,000 |
| Valuation allowance for deferred tax assets | (2,182,000) | (1,911,000) |
| Net deferred tax assets | \$ | \$ |

The net increase in the valuation allowance for deferred tax assets in 2003 was \$271,000. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income,

and tax planning strategies in making this assessment.

At March 31, 2003, the Company has net operating loss carry forwards for U.S. federal and state income tax purposes of approximately \$3,033,000 which expire in varying amounts beginning in the year 2020. Utilization of the net operating losses carried forward will be limited under Section 382 of the Internal Revenue Code as the Company experienced an ownership change greater than 50%. Accordingly, certain net operating losses may not be realizable in future years due to this limitation.

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BRAINWORKS VENTURES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements, Continued****(8)*****Private Placement***

Between September 2001 and January 2002, the Company raised net proceeds of \$425,000 (net of expenses of approximately \$9,000) in a private placement offering of its securities. Pursuant to the offering, the Company sold 144,918 shares of its common stock for \$3.00 per share and issued 144,918 warrants to buy the Company's common stock at an exercise price of \$5.50 per share (Warrant I). Each Warrant I is exercisable over a five-year period from the date of issuance, and when exercised, the holder receives one share of common stock and another warrant to buy the Company's common stock at an exercise price of \$8.25 per share (Warrant II). Each Warrant II is exercisable over a five-year period from the date of issuance, and when exercised the holder receives one share of common stock and a third warrant to buy the Company's common stock at an exercise of \$12.375 per share.

(9)***Subsequent Event***

On April 1, 2003, pursuant to an agreement and plan of mergers and reorganization, the Company merged with AssuranceAmerica Corporation. The purpose of the merger was to facilitate the Company's entrance into the property and casualty insurance industry. The combination was a reverse acquisition and was accounted for as a purchase with the Company as the acquired entity.

The Company issued 19,508,902 shares of common stock on April 1, 2003 and anticipates issuing 23,241,098 additional shares at such time as the authorized number of common shares is increased to a number sufficient to complete the transaction. As a result of the merger, the existing shareholders will have approximately 5% ownership in the new entity.

The assets, liabilities and stockholders' equity of AssuranceAmerica Corporation were as follows:

| | |
|--|---------------------|
| Assets: | |
| Current assets | \$ 926,000 |
| Fixed assets | 815,000 |
| Intangible assets | 3,321,000 |
| Other assets | 49,000 |
| | <hr/> |
| | \$ 5,111,000 |
| | <hr/> |
| Current liabilities and stockholders' equity: | |
| Current liabilities | \$ 1,524,000 |
| Long-term debt and accrued interest to related party | 3,582,000 |
| Other liabilities | 107,000 |
| Stockholders' equity (deficit) | (102,000) |
| | <hr/> |
| | \$ 5,111,000 |
| | <hr/> |