VFINANCE INC
Form 10-Q
August 14, 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 June 30, 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 August 10, 2007: 54,679,876 shares of Common Stock $0.01 par value per share.

VFINANCE, INC.
FORM 10-Q
QUARTERLY PERIOD ENDED JUNE 30, 2007

INDEX

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Unaudited Condensed Consolidated Statements of Financial Condition as of June 30, 2007 and December 31, 2006 4

Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2007 and 2006 5

Unaudited Condensed Consolidated Statement of Shareholders' Equity and Comprehensive Income for the Six Months ended June 30, 2007 6

Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2007 and 2006 7

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations 16

Item 3 - Quantitative & Qualitative Disclosures About Market Risk 22

Item 4 - Controls and Procedures 22

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings 23

Item 6 - Exhibits 23

Signatures 24

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)

	June 30, 2007
Assets:	
Current assets:	
Cash and cash equivalents	$ 5,071
Due from clearing broker	1,452
Marketable investment securities:	
Trading securities	2,646
Available-for-sale securities	464
Accounts receivable	928
Forgivable loans - employees, current portion	51
Notes receivable - employees	52
Prepaid expenses and other current assets	172

Total current assets	10,840
Property and equipment, net	536
Customer relationships, net	3,701
Other assets	516
Total assets	$ 15,594
Liabilities and shareholders' equity:	
Current liabilities:	
Accounts payable	$ 951
Accrued compensation	3,558
Other accrued liabilities	1,090
Securities sold, not yet purchased	882
Capital lease obligations, current portion	180
Other	1,862
Total current liabilities	8,525
Capital lease obligations, long term	76
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
Additional paid-in capital	31,425
Accumulated deficit	(24,241
Accumulated other comprehensive loss	(737
Total shareholders' equity	6,992
Total liabilities and shareholders' equity	$ 15,594

See accompanying notes to unaudited condensed consolidated financial st

4

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

	Three Months Ended June 30,		Six
	2007	2006 (Restated and Revised)	200
Revenues:			

Commissions - agency	$ 6,878.1	$ 4,769.5	$12
Trading profits	3,238.8	2,503.0	6
Success fees	940.5	1,367.2	2
Other brokerage related income	2,075.1	753.6	3
Consulting fees	17.6	151.6	
Other	46.3	109.6	
Total revenues	13,196.4	9,654.5	25
Compensation, commissions and benefits	10,250.1	7,770.9	19
Clearing and transaction costs	1,139.7	1,053.5	2
General and administrative costs	1,323.2	658.7	1
Occupancy and equipment costs	291.5	321.2	
Depreciation and amortization	320.6	211.7	
Total operating costs	13,325.1	10,016.0	25
Income (loss) from operations	(128.7)	(361.5)	
Other income (expenses):			
Interest income	10.6	9.9	
Interest expense	(17.9)	(17.9)	
Dividend income	3.8	9.7	
Other income, net	2.3	17.0	
Total other income (expense), net	(1.2)	18.7	
Income (loss) before income taxes	(129.9)	(342.8)	
Income tax benefit (provision)	-	-	
Net income (loss)	$ (129.9)	$ (342.8)	$
Net income (loss) per share: basic	$ (0.00)	$ (0.01)	$
Weighted average number of shares outstanding: basic	54,679.9	47,269.0	54
Net income (loss) per share: diluted	$ (0.00)	$ (0.01)	$
Weighted average number of shares outstanding: diluted	54,679.9	47,269.0	54

See accompanying notes to unaudited condensed consolidated financial sta

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehen-sive (Loss)	Compre-hensive (Loss)
Balance at December 31, 2006	54,429.9	$ 544.3	$ 31,147.4	$ (24,149.5)	$ (642.5)	
Net loss	-	-	-	(92.1)	-	$ (92.1
Other comprehensive (loss):						
Unrealized loss on available-for-sale marketable securities	-	-	-	-	(95.4)	(95.4
Comprehensive (loss)						$ (187.
Stock-based compensation expense	-	-	230.4	-	-	
Issuance of shares for future services	250.0	2.5	47.5	-	-	
Balance at June 30, 2007	54,679.9	$ 546.8	$ 31,425.3	$ (24,241.6)	$ (737.9)	

See accompanying notes to unaudited condensed consolidated financial st

6

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

	Six Months Ende
	2007
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	
Net income (loss)	$ (92.1)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Non-cash fees received	(680.6)
Non-cash compensation paid	488.2
Depreciation and amortization	639.0
Provision for doubtful accounts	-
Stock-based compensation	230.4

Amounts forgiven under forgivable loans	36.6
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(804.5)
Forgivable loans	(29.5)
Due from clearing broker	(1,152.9)
Notes receivable - employees	75.9
Investments in trading securities	(1,637.5)
Other current assets	61.3
Other assets and liabilities, net	1,440.6
Increase in:	
Accounts payable and accrued liabilities	1,582.4
Securities sold, not yet purchased	840.9
Cash provided by (used in) operating activities	998.2
CASH USED IN INVESTING ACTIVITIES:	
Purchase of property and equipment	(53.3)
Proceeds from sales of investments in securities available-for-sale	47.2
Investment in unconsolidated affiliate	-
Cash used in investing activities	(6.1)
CASH USED IN FINANCING ACTIVTIES:	
Repayments of capital lease obligations	(126.2)
Cash used in financing activities	(126.2)
Increase (decrease) in cash and cash equivalents	865.9
Cash and cash equivalents at beginning of period	4,205.2
Cash and cash equivalents at end of period	$ 5,071.1

See accompanying notes to unaudited condensed consolidated financial sta

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

vFinance, Inc. (the "Company") is a financial services company which specializes in high growth opportunities. The Company's proficiency in 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 very well 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 corporate and independent 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 Financial Industry Regulatory Authority("FINRA") and Securities Investor Protection Corporation ("SIPC"). vFinance Investments is also a member of the National Futures Association ("NFA").

(In thousands, except per share data)

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 and six month periods ended June 30, 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.

Restatement and Revision

The Company has restated certain amounts in the Unaudited Condensed Consolidated Financial Statements as of and for the three and six months ended June 30, 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 and six months ended June 30, 2006 is as follows:

		Effect of Rest
	As Reported-	Reclass- ification of

	Three Months Ended June 30, 2006	Reclass-ifications	As Revised	Securities from Trading to Available-for-Sale	Amortiz-ation of Intangible Asset
Statement of Operations:					
Total revenues	$ 9,655.5	(36.6)	$ 9,618.9	35.6	-
Clearing and transaction costs	$ 1,060.3	3.2	$ 1,063.5	-	-
Depreciation and amortization	$ 248.4	-	$ 248.4	-	(36.7)
Total operating costs	$10,080.6	(17.9)	$10,062.7	-	(36.7)
(Loss) from operations	$ (425.1)	(18.7)	$ (443.8)	35.6	36.7
Net (loss)	$ (425.1)	-	$ (425.1)	35.6	36.7
Net (loss) per share - basic	$ (0.01)				
Wt. avg. shares outstanding - basic	47,269.0				
Net (loss) per share - diluted	$ (0.01)				
Wt. avg. shares outstanding - diluted	47,269.0				

				Effect of Rest	
	As Reported-Six Months Ended June 30, 2006	Reclass-ifications	As Revised	Reclass-ification of Securities from Trading to Available-for-Sale	Amortiz-ation of Intangible Asset
Statement of Operations:					
Total revenues	$18,581.3	(66.5)	$18,514.8	147.3	-
Clearing and transaction costs	$ 2,007.6	3.2	$ 2,010.8	-	-
Depreciation and amortization	$ 407.1	-	$ 407.1	-	(73.4)
Total operating costs	$18,758.6	(30.1)	$18,278.6	-	(73.4)
Income (loss) from operations	$ (171.9)	-	$ (171.9)	147.3	73.4
Net income (loss)	$ (171.9)	-	$ (171.9)	147.3	73.4
Net income (loss) per share - basic	$ -				
Wt. avg. shares outstanding - basic	43,717.3				
Net income (loss) per share - diluted	$ -				
Wt. avg. shares outstanding - diluted	43,717.3				

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 Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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 SFAS 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 FASB issued 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.

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 June 30, 2007 and December 31, 2006, property and equipment, net consisted of the following:

	June 30, 2007	December 31, 2006
Furniture and fixtures	$ 90.8	$ 90.8
Equipment	769.5	727.5
Capital leases - computer equipment	751.7	704.5
Leasehold improvements	174.8	174.8
Software	226.2	214.8
	2,013.0	1,912.4
Less: accumulated depreciation	(1,476.6)	(1,251.4)
Property and equipment, net	$ 536.4	$ 661.0

The Company acquired $47.2 thousand of computer equipment under capital leases in the six months ended June 30, 2007.

The Company recorded depreciation expense of $225.1 thousand and $175.2 thousand in the six months ended June 30, 2007 and 2006, respectively.

11

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:

	Six Months Ended June 30, 2006		
	vFinance (Restated and Revised)	Sterling	Adjustments
Total revenue	$ 18,662.1	$ 3,759.4	$ -
Income from operations	26.9	48.0	(227.1)
Net income	68.8	48.0	(227.1)
Earnings per share - basic	$ 0.00		$ (0.02)
Wt. avg. shares outstanding - basic	43,717.3		9,337.0
Earnings per share - diluted	$ 0.00		$ (0.02)
Wt. avg. shares outstanding - diluted	46,984.4		9,337.0

4. CUSTOMER RELATIONSHIPS

At June 30, 2007, customer relationships totaled $3.7 million, net of accumulated amortization of $1.2 million. 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 $413.9 thousand and $158.5 thousand in the six months ended June 30, 2007 and 2006, respectively.

12

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 June 30,	Six Months Ended

	2007	2006	2007	
Weighted average shares outstanding - basic	54,679.9	47,269.0	54,630.2	43
Effect of dilutive stock options and warrants	-	-	-	3
Weighted average shares outstanding - diluted	54,679.9	47,269.0	54,630.2	46

As of June 30, 2007, the Company had 17.9 million stock options and warrants outstanding, all of which have been excluded from the computation of diluted earnings per share because they were anti-dilutive. As of June 30, 2006, the Company had 21.9 million stock options and warrants outstanding, of which 6.4 million have been excluded from the computation of diluted earnings per share because they were anti-dilutive.

6. COMMITMENTS AND CONTINGENCIES

Clearing Agreements

As consideration for certain incentives received at the inception of one of the Company's clearing agreements, the Company would be required to pay a termination fee 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 June 30, 2007, the contingent obligation of the Company associated with this clearing agreement was $680.0 thousand.

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 has started the process of replacing this agreement and expects to replace it by September 22, 2007.

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, 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.

In 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. The Company recently received notification that the case has been dismissed and no payment has been awarded to the claimants in this matter.

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 contract 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. As discussed in Note 7, the Company and Mr. Matthews entered into a settlement agreement in July 2007 with respect to this arbitration action.

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 June 30, 2007 and December 31, 2006, the Company had accrued approximately $130.0 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 August 7, 2007, the Company received information from one of its clearing firms that the clearing firm improperly calculated the fees paid to the Company from the inception of the arrangement in May 2004. The Company has treated this new information as a change in accounting estimate by recording other brokerage related income and a receivable of $713.5 thousand during the three months ended June 30, 2007. This change in accounting estimate resulted in additional net income of $680.0 thousand ($.01 per basic and diluted share) in the three and six months ended June 30, 2007. Additionally, based on current transaction volumes, the Company expects that future annual revenues and operating income derived from this arrangement will increase by approximately $300.0 thousand - $350.0 thousand compared to historical performance through the expiration of the agreement in March 2009.

In July 2007, the Company entered into a settlement agreement with Mr. John S. Matthews regarding the arbitration action described in Note 6 (NASD Case No. 05-014991). Pursuant to the terms of the settlement agreement, the Company paid $50.0 thousand to Mr. Matthews in July 2007 and is further obligated to make payments to Mr. Matthews totaling $250.0 thousand ($50.0 thousand in cash payable over 10 months and an additional $200.0 thousand in cash or the Company's stock, at the Company's option over the next three years). In connection with this settlement, the Company recorded $250.0 thousand of arbitration settlement expense (a component of general and administrative costs) during the three months ended June 30, 2007.

15

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 and six months ended June 30, 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 and six months ended June 30, 2007 and 2006.

	Three Months Ended June 30,				Six
	2007	2006 (Restated and Revised)	Change	% Chg.	2007
Revenues:					
Commissions - agency	$ 6,878.1	$ 4,769.5	2,108.6	44.2 %	$ 12,50
Trading profits	3,238.8	2,503.0	735.8	29.4 %	6,83
Success fees	940.5	1,367.2	(426.7)	(31.2)%	2,53
Other brokerage related income	2,075.1	753.6	1,321.5	175.4 %	3,22
Consulting fees	17.6	151.6	(134.0)	(88.4)%	3
Other	46.3	109.6	(63.3)	(57.8)%	7
Total revenues	13,196.4	9,654.5	3,541.9	36.7 %	25,21

Compensation, commissions and benefits	10,250.1	7,770.9	2,479.2	31.9 %	19,91
Clearing and transaction costs	1,139.7	1,053.5	86.2	8.2 %	2,24
General and administrative costs	1,323.2	658.7	664.5	100.9 %	1,98
Occupancy and equipment costs	291.5	321.2	(29.7)	(9.2)%	53
Depreciation and amortization	320.6	211.7	108.9	51.4 %	63
Total operating costs	13,325.1	10,016.0	3,309.1	33.0 %	25,30
Income (loss) from operations	(128.7)	(361.5)	232.8	(64.4)%	(9
Other income (expenses):					
Interest income	10.6	9.9	0.7	7.1 %	2
Interest expense	(17.9)	(17.9)	-	0.0 %	(3
Dividend income	3.8	9.7	(5.9)	(60.8)%	
Other income, net	2.3	17.0	(14.7)	(86.5)%	
Total other income (expense), net	(1.2)	18.7	(19.9)	(106.4)%	(
Income (loss) before income taxes	(129.9)	(342.8)	212.9	(62.1)%	(9

Our results of operations for the three and six months ended June 30, 2007 were affected by two subsequent events. As discussed in Note 7 to our unaudited condensed consolidated financial statements, during the three months ended June 30, 2007, we recorded $713.5 thousand of other brokerage-related income related to a calculation error made by one of our clearing firms, resulting in additional net income of $680.0 thousand in the three and six months ended June 30, 2007. Also as discussed in Note 7 to our unaudited condensed consolidated financial statements, during the three months ended June 30, 2007, we recorded $250.0 thousand of arbitration settlement expense (a component of general and administrative costs) in connection with a legal settlement. The net effect of these two items on net income for the three and six months ended June 30, 2007 was $430.0 thousand ($0.01 per basic and diluted share).

THREE MONTHS ENDED JUNE 30, 2007 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2006

STATEMENT OF OPERATIONS

Revenues

Total revenues for the three months ended June 30, 2007 increased 37%, or $3.5 million, compared to the three months ended June 30, 2006. The $3.5 million increase is attributable to higher agency commissions, increased trading profits, and other brokerage related income, all driven primarily by the addition of new brokers in 2006 and 2007, including through the May 2006 Sterling Financial Acquisition. Other brokerage related income for the three months ended June 30, 2007 increased 175%, or $1.3 million, compared to the three months ended June 30, 2006 and included $713.5 thousand related to an amount owed to us by one of our clearing firms. (See Note 7 to the unaudited condensed consolidated financial statements.) The remaining increases in other brokerage related income were derived from the overall increase in brokerage transactions.

Success fees from investment banking decreased 31%, or $426.7 thousand in the three months ended June 30, 2007 compared to the three months ended June 30, 2006. Non-cash success fee revenues increased slightly to $443.6 thousand for the three months ended June 30, 2007, while success fees received in cash decreased by $429.6 thousand to $496.9 million for the three months ended June 30, 2007.

Operating Expenses

Compensation, commissions and benefits.

Compensation, commissions and benefits for the three months ended June 30, 2007 increased 32%, or $2.5 million, compared to the three months ended June 30, 2006. Commissions are correlated with our revenues, primarily agency commissions, trading profits and success fees from investment banking. 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 June 30, 2007 increased $86.2 thousand, or 8%, compared to the three months ended June 30, 2006, primarily as a result of an increase in transaction volume attributable to the addition of new brokers, partially offset by a shift in our revenue mix to lower-cost institutional trading transactions.

General and administrative costs.

General and administrative costs for the three months ended June 30, 2007 increased $664.5 thousand in 2006, or 101%, compared to the three months ended June 30, 2006. General and administrative costs for the three months ended June 30, 2007 included $250.0 thousand of settlement expense associated with the settlement of an arbitration matter, as described in Note 7 to our unaudited condensed consolidated financial statements, as well as $310.0 thousand for professional fees associated with certain arbitration and litigation matters and the expansion of our Sarbanes - Oxley compliance program. Remaining increases resulted from temporary labor and other increased professional fees to support our growth.

Occupancy and equipment costs.

Occupancy and equipment costs for the three months ended June 30, 2007 decreased $29.7 thousand, or 9%, compared to the three months ended June 30, 2006, primarily because in December 2006 we subleased office space acquired under a lease assumed in connection with the Sterling Financial Acquisition.

Depreciation and amortization.

Depreciation and amortization for the three months ended June 30, 2007 increased $108.9 thousand, or 51.4%, compared to the three months ended June 30, 2006, primarily as a result of the amortization expense associated with the customer relationships from the May 2006 Sterling Financial Acquisition.

SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2006

STATEMENT OF OPERATIONS

Revenues

Total revenues for the six months ended June 30, 2007 increased 35%, or $6.6 million, compared to the six months ended June 30, 2006. The $6.6 million increase is attributable to higher agency commissions, increased trading profits, and other brokerage related income, all driven primarily by the addition of new brokers in 2006 and 2007, including through the May 2006 Sterling Financial Acquisition. Other brokerage related income for the six months ended June 30, 2007 increased 109%, or $1.7 million, compared to the six months ended June 30, 2006 and included $713.5 thousand related to an amount owed to us by one of our clearing firms. (See Note 7 to the unaudited condensed consolidated financial statements.) The remaining increases in other brokerage related income were derived from the overall increase in brokerage transactions.

Success fees from investment banking decreased 16%, or $464.6 thousand, in the six months ended June 30, 2007 compared to the six months ended June 30, 2006. Non-cash success fee revenues decreased $336.4 thousand to $680.6 for the six months ended June 30, 2007, while success fees received in cash decreased by $128.2 thousand to $1.9 million for the six months ended June 30, 2007.

18

Operating Expenses

Compensation, commissions and benefits.

Compensation, commissions and benefits for the six months ended June 30, 2007 increased 37%, or $5.4 million, compared to the six months ended June 30, 2006. Commissions are correlated with our revenues, primarily agency commissions, trading profits and success fees from investment banking. Additional increases in compensation, commissions and benefits are primarily attributable to increased salaries.

Clearing and transaction costs.

Clearing and transaction costs for the six months ended June 30, 2007 increased $253.0 thousand, or 13%, compared to the six months ended June 30, 2006, primarily as a result of an increase in transaction volume attributable to the addition of new brokers, partially offset by a shift in our revenue mix to lower-cost institutional trading transactions.

General and administrative costs.

General and administrative costs for the six months ended June 30, 2007 increased $749.8 thousand, or 61%, compared to the six months ended June 30, 2006. General and administrative costs for the six months ended June 30, 2007 included $250.0 thousand of settlement expense associated with the settlement of an arbitration matter, as described in Note 7 to our unaudited condensed consolidated financial statements, as well as $367.1 thousand for professional fees associated with arbitration and litigation matters and the expansion of our Sarbanes - Oxley compliance program. Remaining increases resulted from temporary labor and other increased professional fees to support our growth.

Occupancy and equipment costs.

Occupancy and equipment costs for the six months ended June 30, 2007 increased $7.4 thousand, or 1%, compared to the six months ended June 30, 2006, primarily as a result of the occupancy and equipment costs associated with the Sterling Financial Acquisition, partially offset by sublease income commencing in December 2006.

Depreciation and amortization.

Depreciation and amortization for the six months ended June 30, 2007 increased $305.3 thousand, or 92%, compared to the six months ended June 30, 2006, primarily as a result of the amortization expense associated with the customer relationships from the Sterling Financial Acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have satisfied our liquidity and regulatory capital needs through the issuance of equity and debt securities. As of June 30, 2007, liquid assets consisted primarily of cash and cash equivalents of $5.1 million and marketable securities of $2.7 million (net of $402.7 thousand in restricted securities), for a total of $7.8 million, which is approximately $2.6 million higher than $5.2 million in liquid assets (net of $400.0 thousand in restricted securities) as of December 31, 2006. As of June 30, 2007, we had long-term capital lease obligations of $76.7 thousand, net of current obligations of $180.7 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 June 30, 2007, vFinance Investments and EquityStation net capital exceeded the requirement by $715.2 thousand and $315.1 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 $865.9 thousand during the six months ended June 30, 2007. Cash and cash equivalents decreased by $518.7 thousand during the six months ended June 30, 2006. The major components of these changes are discussed below.

Cash provided by (used in) operating activities for the six months ended June 30, 2007 was $998.2 thousand compared to $(317.4) thousand for the six months ended June 30, 2006. Cash provided by (used in) operating activities includes net income adjusted for non-cash items and the effects of changes in working capital including changes in working capital related to trading security positions. Cash provided by (used in) operating activities increased for the six months ended June 30, 2007 compared to the six months ended June 30, 2006 primarily as a result of increases in accrued compensation and securities sold, not yet purchased, as well as a decrease in non-cash fees received, net of non-cash compensation paid. Partially offsetting these factors were increases in receivables, based on transaction timing.

Cash used in investing activities for the six months ended June 30, 2007 was $6.1 thousand compared to $107.6 thousand for the six months ended June 30, 2006, when we made a $161.9 thousand investment in an unconsolidated affiliate. Capital expenditures decreased by $90.2 thousand for the six months ended June 30, 2007 compared to the six months ended June 30, 2006, as certain 2007 investments are planned for the third and fourth quarters, when we expect an increase in capital expenditures compared to the first six months of 2007. Cash proceeds from the sales of securities available-for-sale decreased by $150.6 thousand for the six months ended June 30, 2007 compared to the six months ended June 30, 2006, primarily as a result of variances in the timing of restriction expirations and sales transactions during these six month periods.

Cash used in financing activities for the six months ended June 30, 2007 increased to $126.2 thousand compared to $93.7 thousand for the six months ended June 30, 2006 as a result of capital lease payments for equipment acquired under capital leases that commenced in 2007 and in the third and fourth quarters of 2006.

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.

21

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In 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. The Company recently received notification that the case has been dismissed and no payment has been awarded to the claimants in this matter.

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. In July 2007, the Company entered into a settlement agreement with Mr. Matthews regarding this arbitration action. Pursuant to the terms of the settlement agreement, the Company paid $50.0 thousand to Mr. Matthews in July 2007 and is further obligated to make payments to Mr. Matthews totaling $250.0 thousand ($50.0 in cash payable over 10 months and an additional $200.0 thousand in cash or the Company's stock, at the Company's option over the next three years).

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.

22

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)	August 14, 2007
/s/ Alan B. Levin ----------------------- Alan B. Levin	Chief Financial Officer and (Principal Financial and Accounting Officer)	August 14, 2007