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VFINANCE INC
Form 10-Q
August 14, 2006

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2006

or

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

For the transition period _____ to _____

Commission File Number 1-11454-03

vFinance, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware

State or other jurisdiction of
incorporation or organization)

58-1974423

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

3010 North Military Trail, Suite 300, Boca Raton, FL 33431

(Address of principal executive offices)

(561) 981-1000

(Issuer's telephone number)

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

Check whether the issuer (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months
(or for such shorter period that the registrant was required to file such
reports), and (2) has been subject to such filing requirements for the past 90
days. Yes 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

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

State the number of shares outstanding of each of the issuer's classes of common
equity, as of August 14, 2006: 53,126,133 shares of Common Stock \$0.01 par value

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

PART I - FINANCIAL INFORMATION

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FORWARD-LOOKING STATEMENTS

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

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growth strategy through acquisitions or joint ventures, our potential inability to secure additional debt or equity financing to support our growth strategies and other risks detailed in the Company's periodic report filings with the Securities and Exchange Commission.

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

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vFinance, Inc. and Subsidiaries CONSOLIDATED BALANCE SHEETS

Assets:	June 30, 2006 (Unaudited)	December 31, 2005
	-----	-----
Current Assets:		
Cash and cash equivalents	\$ 3,908,652	\$ 4,427,406
Due from clearing broker	770,264	705,097
Investments in trading securities	1,827,225	870,306
Accounts receivable less allowance for doubtful accounts (\$2,044 in 2006, \$0 in 2005)	396,663	408,841
Notes receivable - employees	33,791	67,588
Prepaid expenses and other current assets	189,334	130,033
	-----	-----
Total current assets	7,125,929	6,609,271
Furniture and equipment, at cost:		
Furniture and equipment	1,527,372	1,383,878
Software	206,781	173,890
	-----	-----
	1,734,153	1,557,768
Less accumulated depreciation	(1,040,365)	(865,130)
	-----	-----
Furniture and equipment, net	693,788	692,638
Intangible assets, net of amortization	4,621,028	1,446,848
Other assets	514,041	313,327
	-----	-----
Total assets	\$ 12,954,786	\$ 9,062,084
	=====	=====
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	\$ 662,824	\$ 714,197
Accrued payroll	1,831,011	1,678,632
Other accrued liabilities	783,102	825,594
Securities sold, not yet purchased	487,039	42,421
Capital lease obligations	204,585	187,775
Other	104,487	118,781
	-----	-----
Total current liabilities	4,073,048	3,567,400
Capital lease obligations, long term	147,514	225,067
Stockholders' equity:		

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Common stock \$0.01 par value, 75,000,000 shares authorized, 53,126,133 and 40,126,133 issued and outstanding	531,265	401,266
Additional paid-in-capital	30,333,587	26,821,557
Accumulated deficit	(22,130,628)	(21,953,206)

Total stockholders' equity	8,734,224	5,269,617

Total liabilities and stockholders' equity	\$ 12,954,786	\$ 9,062,084
	=====	

See accompanying notes to unaudited consolidated financial statements.

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vFinance, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended June 30, 2006		Six months
	2006	2005	2006
	(Unaudited)	(Unaudited)	(Unaudited)
	-----		-----
Revenues:			
Commissions - agency	\$4,769,502	\$3,590,197	\$ 9,524,
Trading profits	2,502,998	1,055,096	4,004,
Success fees	1,331,579	661,460	2,850,
Other brokerage related income	753,601	759,373	1,546,
Consulting fees	151,625	173,850	303,
Other	146,203	80,698	352,
	-----		-----
Total revenues	9,655,508	6,320,674	18,581,
	-----		-----
Operating expenses:			
Compensation, commissions and benefits	7,592,248	4,717,283	14,208,
Clearing and transactions costs	1,060,288	787,604	2,007,
General and administrative costs	717,665	633,955	1,344,
Occupancy and equipment costs	339,060	175,878	554,
Depreciation and amortization	248,411	74,092	407,
Stock based compensation	122,960	1,324	236,
	-----		-----
Total Operating expenses:	10,080,632	6,390,136	18,758,
	-----		-----
Loss from operations	(425,124)	(69,462)	(177,
Income tax benefit (provision)	-	-	-
	-----		-----
Net loss	\$ (425,124)	\$ (69,462)	\$ (177,
	=====		=====
Net loss per share: basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0
	=====		=====
Weighted average shares outstanding:			
basic and diluted	47,268,990	40,126,133	43,717,

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See accompanying notes to unaudited consolidated financial statements

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vFinance, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2006 (Unaudited)	Six months ended June 30, 2005 (Unaudited)
Cash flows from operating activities:		
Net loss	(177,423)	(223,423)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash fees received	(1,016,980)	(107,000)
Depreciation and amortization	407,054	134,000
Provision for doubtful accounts	2,043	43,000
Unrealized loss (gain) on investments, net	225,323	(24,000)
Unrealized (gain) loss on warrants	(72,443)	90,000
Amount forgiven under forgivable loans	-	6,000
Non-cash compensation	-	58,000
Imputed interest	(846)	-
Stock based compensation	236,029	2,000
Changes in operating assets and liabilities:		
(Increase) decrease		
Accounts receivable	(13,701)	(585,000)
Forgivable loans	(57,083)	-
Due from clearing broker	(112,030)	(157,000)
Notes receivable - employees	33,797	8,000
Investments in trading securities	(92,819)	858,000
Other assets and liabilities	43,634	73,000
Increase (decrease)		
Accounts payable and accrued liabilities	31,121	(428,000)
Securities, sold not yet purchased	444,617	(253,000)
Net cash used in operating activities	(119,707)	(502,000)
Cash flows from investing activities:		
Purchase of capital lease equipment	(32,940)	(300,000)
Purchase of equipment	(143,443)	(32,000)
Investment in unconsolidated affiliate	(161,922)	-
Net cash used in investing activities	(338,305)	(332,000)
Cash flows from financing activities:		
Proceeds from capital leases	23,763	300,000
Repayments on capital leases	(84,505)	(56,000)
Proceeds from exercise of common stock options	-	113,000
Net cash (used in) provided by financing activities	(60,742)	357,000
Decrease in cash and cash equivalents	(518,754)	(478,000)
Cash and cash equivalents at beginning of year	4,427,406	5,256,000

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Cash and cash equivalents at end of period	\$ 3,908,652	\$ 4,777
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

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

NOTE 1 - DESCRIPTION OF BUSINESS

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

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

Basis of presentation

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Furthermore, the Company, including its wholly owned subsidiary vFinance Investments, has been named as a defendant in various customer arbitrations. These claims result from the actions of brokers affiliated with vFinance Investments. In addition, under the vFinance Investments registered representative's contract, each registered representative has indemnified the Company for these claims. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 5 "Accounting for Contingencies,"

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the Company has established liabilities for potential losses from such complaints, legal actions, investigations and proceedings. In establishing these liabilities, the Company's management uses its judgment to determine the probability that losses have been incurred and a reasonable estimate of the amount of losses. In making these decisions, we base our judgments on our knowledge of the situations, consultations with legal counsel and our historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution. However, accruals are reviewed regularly and are adjusted to reflect our estimates of the impact of developments, rulings, advice of counsel and any other information pertinent to a particular matter. Because of the inherent difficulty in predicting the ultimate outcome of legal and regulatory actions, we cannot predict with certainty the eventual loss or range of loss related to such matters. If our judgments prove to be incorrect, our liability for losses and contingencies may not accurately reflect actual losses that result from these actions, which could

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

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates (Continued)

materially affect results in the period when expenses are ultimately determined. As of June 30, 2006, the Company has accrued approximately \$205,000 for these matters. The Company has recently acquired an errors and omissions insurance policy, for certain future claims in excess of the policy's \$75,000 per claim deductible up to an aggregate of \$1 million. While the Company will vigorously defend itself in these matters, and will assert insurance coverage and indemnification to the maximum extent possible, there can be no assurance that these lawsuits and arbitrations will not have a material adverse impact on its financial position.

Accounts receivable

Accounts receivable consist of receivables incurred in the ordinary course of our business including but not limited to investment banking and consulting fees. The Company has a policy of establishing an allowance for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. The allowance for uncollectible receivables at June 30, 2006 was approximately \$2,000 and at December 31, 2005 was \$0.

A receivable from one independent contractor in the amount of \$162,289 accounted for 40% of the Company's accounts receivable balance at June 30, 2006.

Property and equipment

Property and equipment are carried at cost and depreciated over estimated useful lives of between 3 and 7 years. Equipment acquired under capital leases are reported on the balance sheet and amortised over the life of the lease. The cost

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of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

Intangible assets

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

Impairment of long-lived assets

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

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

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revenue recognition

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

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

The Company does not require collateral from its customers. Revenues are not concentrated in any particular region of the country or with any individual or group.

The Company periodically receives equity instruments which include stock purchase warrants and common and preferred stock from companies as part of our compensation for investment-banking services that are classified as investments in trading securities on the balance sheet if still held at the financial reporting date. These instruments are stated at fair value in accordance with SFAS #115 "Accounting for certain investments in debt and equity securities" and

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EITF 00-8 "Accounting by a grantee for an equity instrument to be received in conjunction with providing goods or services." Primarily all of the equity instruments are received from small public companies. The stock and stock purchase warrants received are typically restricted as to resale, though the Company generally receives a registration right within one year. Company policy is to sell these securities in anticipation of short-term market movements. The Company recognizes revenue for these stock purchase warrants when received based on the Black Scholes valuation model. The revenue recognized related to other equity instruments is determined based on available market information, discounted by a factor reflective of the expected holding period for those particular equity instruments. On a monthly basis, the Company recognizes unrealized gains or losses in the statement of operations based on the changes in value in the stock purchase warrants and other equity instruments. Realized gains or losses are recognized in the statement of operations when the related stock purchase warrant or other equity instrument is sold.

Occasionally, the Company receives equity instruments in private companies with no readily available market value. Equity interests and warrants for which there is not a public market are valued based on factors such as significant equity financing by sophisticated, unrelated new investors, history of positive cash flow from operations, the market value of comparable publicly traded companies (discounted for liquidity) and other pertinent factors. Management also considers recent offers to purchase a portfolio company's securities and the filings of registration statements in connection with a portfolio company's initial public offering when valuing warrants.

On occasion, the Company distributes equity instruments or proceeds from the sale of equity instruments to our employees as compensation for their investment banking successes. These distributions comply with compensation agreements which vary on a "banker by banker" basis. Accordingly, unrealized gains or losses recorded in the statement of operations related to securities held by us at each period end may also impact compensation expense and accrued compensation.

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

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Concentrations of credit risk

The Company maintains its cash in bank and brokerage deposit accounts, the majority of which, at times, are either uninsured or may exceed federally insured limits. At June 30, 2006, the Company had approximately \$3,908,652 in United States bank deposits, which exceeded federally insured limits. The Company has not experienced any losses in such accounts through June 30, 2006.

Stock-based compensation

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

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

Income taxes

The Company accounts for income taxes under the liability method in accordance with Statement of Financial Accounting Standards No. 109, ACCOUNTING FOR INCOME TAXES. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Net operating loss carry forwards totaled approximately \$11.8 million at June 30, 2006 and \$11.9 million at December 31, 2005. Each quarter the Company weighs the available positive and negative evidence and determines the extent to which the net operating loss carry forwards is realizable.

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

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

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Recent accounting pronouncements

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

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

Reclassifications

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

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

NOTE 3 - PROPERTY AND EQUIPMENT

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

Description	Useful Life (Years)	June 30, 2006 (Unaudited)	December 31, 2005
Furniture & fixtures	5	\$ 88,025	\$ 85,132
Equipment	5	664,365	559,504
Capital leases - computer equipment	3	605,475	572,535
Leasehold improvements	4	169,507	166,707
Software	5	206,781	173,890
Less accumulated depreciation		(1,040,365)	(865,130)
Total fixed assets		\$ 693,788	\$ 692,638

For the six months ended June 30, 2006 depreciation expense of \$175,235 was recorded by the Company, compared to \$134,799 in the six months ended June 30, 2005.

NOTE 4 - INTANGIBLE ASSETS

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

Description	Useful Life (Years)	June 30, 2006 (Unaudited)	December 31, 2005
Customer relationships	5	4,872,700	1,466,700
Accumulated amortization		(251,672)	(19,852)
Total intangible assets		\$ 4,621,028	\$ 1,446,848

For the six months ended June 30, 2006 amortization expense of \$231,820 was recorded by the Company, compared to \$0 in the six months ended June 30, 2005.

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

NOTE 5 - ACQUISITION

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

Purchase price consideration consisted of 13 million shares of the Company's common stock, to which the Company has granted certain registration rights.

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Additionally, certain shares are subject to a standstill agreement and a voting and lockup agreement.

The transactions were accounted for as a business combination using the purchase method of accounting, in accordance with SFAS No. 141, "Business Combinations". The purchase price of \$3,406,000 (based on the average closing price of the Company's stock for the five days prior to completing the business combination) was allocated entirely to customer relationships, an intangible asset that will be amortized over its estimated useful life of five years. The results of operations of the acquired business are included in the Company's results of operations since the acquisition in May 2006.

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

	Six Months Ended June 30,		
	vFinance	Sterling	Adjustm
Net revenues	\$18,581,314	\$3,759,367	\$
(Loss) income from operations	(177,423)	47,951	
Net (loss) income	\$ (177,423)	\$ 47,951	\$
Loss per share - basic and diluted	\$ (0.00)		
Wtd. avg. shares outstanding - basic and diluted	47,268,990		5,

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

	Six Months Ended June 30,		
	vFinance	Sterling	Adjustm
Revenues	\$12,853,749	\$5,663,291	\$
(Loss) income from operations	(223,990)	465,893	

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Net (loss) income	\$ (223,990)	\$ 465,893	\$
	=====	=====	=====
Loss per share - basic and diluted	\$ (0.00)		
	=====		
Wtd. avg. shares outstanding - basic and diluted	39,815,966		13,
	=====		=====

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

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

NOTE 6 - STOCKHOLDERS' EQUITY

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

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

During the quarter ended June 30, 2006, the Company issued 1,040,000 options to purchase common stock for compensation to employees and independent contractors. The fair market value of these options was valued on the grant date using the Black-Scholes option-pricing model using the following weighted average assumptions: dividend yield of 0%, expected volatility of 77.7%, risk free interest rate of 4.75% and a term of five years. For the quarter ended June 30, 2006, the net income and earnings per share reflect a non cash compensation expense of \$122,960.

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	-----	-----
Net (loss) - as reported	(69,462)	(223,989)
Less: stock based compensation determined under the Fair value method, net of income tax effect	94,799	189,587
	-----	-----
Pro forma net loss	(164,261)	(413,485)
	=====	=====

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Basic earnings (loss) per share - as reported	\$ (0.00)	\$ (0.00)
Basic earnings (loss) per share - pro forma	\$ (0.00)	\$ 0.00
Weighted average shares outstanding: basic and diluted	40,126,133	39,815,966

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

NOTE 6 - STOCKHOLDERS' EQUITY
(Continued)

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

	Weighted Average Exercise Price	Number of Shares	Exercise Per Op
Outstanding options at December 31, 2005	\$ 0.23	14,614,839	\$ 0.15
Granted	\$ 0.20	2,046,250	\$ 0.17
Exercised	\$ -	-	-
Cancelled	\$ 0.43	(1,858,660)	\$ 0.15
Outstanding options at June 30, 2006	\$ 0.21	14,802,429	\$ 0.15

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

Exercise Price	Options Outstanding
0.150	250,000
0.155	4,495,000
0.170	1,635,000
0.180	685,000
0.190	1,667,502
0.200	480,000
0.205	320,000
0.210	1,733,962
0.220	60,000
0.230	902,500
0.245	750,000
0.250	258,750
0.260	405,000
0.270	5,000
0.280	97,500
0.320	310,000
0.330	2,500
0.350	484,215
0.363	120,000

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0.500	100,000
0.625	22,500
1.000	18,000

	14,802,429
	=====

For the period ended June 30, 2006 the company had 3,740,824 exercisable common stock options and 11,061,605 common stock options that are presently unvested.

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

NOTE 6 - STOCKHOLDERS' EQUITY
(Continued)

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

	Weighted Average Exercise Price	Number of Warrants	Exercise Per War
	-----	-----	-----
Outstanding warrants at December 31, 2005	\$ 1.12	7,659,589	\$ 0.15
Granted	\$ -	-	-
Exercised	\$ -	-	-
Cancelled	\$ 2.25	(585,000)	\$ 2.25
	-----	-----	-----
Outstanding warrants at June 30, 2006	\$ 1.02	7,074,589	\$0.15
	=====	=====	=====

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

Exercise Price	Warrants Outstanding
-----	-----
0.150	750,000
0.160	2,427,923
0.200	1,000,000
0.350	1,673,500
0.630	400,000
2.250	20,000
6.000	103,166
7.200	700,000

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7,074,589

=====

For the period ended June 30, 2006 the company had 7,074,589 exercisable common stock warrants.

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vFinance, Inc. and Subsidiaries
June 30, 2006

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

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

	Three months ended June 30, 2006			Six
	2006 Unaudited	2005 Unaudited	% Chg	2 Unau
Revenues:				
Commissions - agency	\$ 4,769,502	\$ 3,590,197	33%	\$
Trading profits	2,502,998	1,055,096	137%	
Success fees	1,331,579	661,460	101%	
Other brokerage related income	753,601	759,373	-1%	
Consulting fees	151,625	173,850	-13%	
Other	146,203	80,698	81%	
Total revenues	9,655,508	6,320,674	53%	1
Operating expenses:				
Compensation, commissions and benefits	7,592,248	4,717,283	61%	1
Clearing and transactions costs	1,060,288	787,604	35%	
General and administrative costs	717,665	633,955	13%	
Occupancy and equipment costs	339,060	167,628	92%	
Depreciation and amortization	248,411	74,092	235%	
Stock based compensation	122,960	1,324	9187%	
Total operating expenses:	10,080,632	6,390,136	58%	1
Loss from operations	(425,124)	(69,462)	512%	
Income tax benefit (provision)	-	-		
Net loss	\$ (425,124)	\$ (69,462)	512%	\$

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vFinance, Inc. and Subsidiaries
June 30, 2006

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

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

STATEMENTS OF OPERATIONS

Revenues

Net revenues increased 3,334,834 or 53% to \$9,655,508 for the three months ended June 30, 2006 compared to \$6,320,674 for the three months ended June 30, 2005. Approximately 30% of this increase resulted from increases in agency commissions due to the addition of new brokers, through both the acquisition of Sterling and other brokers hired independently of the acquisition. Additionally, another 30% of this increase is attributable to the trading profits derived from the customer relationships acquired from Sterling in May 2006 and generally more favorable trading conditions in our market making activities. The majority of the remaining increase was due to higher revenues from success fees from investment banking transactions.

Operating Expenses

Compensation, commissions and benefits increased 61% to \$7,592,248 for the three months ended June 30, 2006 compared to \$4,717,283 for the three months ended June 30, 2005, primarily as a result of the Sterling acquisition and a 53% increase in net revenues.

Clearing and transaction costs increased 35% to \$1,060,288 for the three months ended June 30, 2006 compared to \$787,604 for the three months ended June 30, 2005, primarily as a result of an increase in transaction volume partially due to the Sterling acquisition as well as higher average transaction costs associated with our trading activities.

General and administrative expenses increased \$83,710 or 13% to \$717,665 for the three months ended June 30, 2006 compared to \$633,995 for the three months ended June 30, 2005. This increase is primarily due to accruals for legal matters.

Occupancy and equipment costs increased \$163,182 to \$339,060 for the three months ended June 30, 2006 compared to \$175,878 for the three months ended June 30, 2005. This increase relates primarily to the occupancy and equipment costs associated with the Sterling acquisition.

Depreciation and amortization increased \$174,319 to \$248,411 for the three months ended June 30, 2006 compared to \$74,092 for the three months ended June 30, 2005. The increase was primarily attributable to the Company's amortization of customer relationships from the Sterling acquisition and the reclassification of goodwill to customer relationships in the second half of 2005.

Stock based compensation was \$122,960 for the three months ended June 30, 2006 compared to \$1,324 for the three months ended June 30, 2005, due to the Company's adoption of the Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment ("SFAS No. 123R") on January 1, 2006.

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

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO THE SIX MONTHS ENDED
JUNE 30, 2005

STATEMENTS OF OPERATIONS

Revenues

Revenues increased \$5,727,565, or 45% to \$18,581,314 for the six months ended June 30, 2006 compared to \$12,853,749 for the six months ended June 30, 2005. Approximately 28% of this increase resulted from increases in agency commissions due to the addition of new brokers, through both the acquisition of Sterling and other brokers hired independently of the acquisition. Additionally, another 31% of this increase is attributable to the trading profits derived from the customer relationships acquired from Sterling in May 2006 and generally more favorable trading conditions in our market making activities. The majority of the remaining increase was due to higher revenues from success fees from investment banking transactions.

Operating Expenses

Compensation, commissions and benefits increased 43% to \$14,208,788 for the six months ended June 30, 2006 compared to \$9,946,936 for the six months ended June 30, 2005, primarily as a result of the Sterling acquisition and a 44% increase in net revenues.

Clearing and transaction costs increased 32% to \$2,007,589 for the six months ended June 30, 2006 compared to \$1,523,343 for the six months ended June 30, 2005, primarily as a result of an increase in transaction volume partially due to the Sterling acquisition and the addition of other independent brokers, as well as higher average transaction costs associated with our trading activities.

General and administrative expenses increased 21% to \$1,344,319 for the six months ended June 30, 2006 compared to \$1,109,647 for the six months ended June 30, 2005. This increase is primarily due to approximately a \$177,000 increase in professional fees driven primarily by accruals for legal matters.

Occupancy and equipment expenses increase 54% to \$554,957 for the six months ended June 30, 2006 compared to \$360,366 for the six months ended June 30, 2005. This increase relates primarily to the occupancy and equipment costs associated with the Sterling acquisition.

Depreciation and amortization increased \$272,256 to \$407,055 for the six months ended June 30, 2006 compared to \$134,799 for the six months ended June 30, 2005. The increase was primarily attributable to the Company's amortization of customer relationships resulting from the Sterling acquisition and the reclassification of goodwill to customer relationships in the second half of 2005.

Stock based compensation was \$236,029 for the six months ended June 30, 2006 compared to \$2,647 for the six months ended June 30, 2005, due to the Company's adoption of the Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment ("SFAS No. 123R") on January 1, 2006.

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

LIQUIDITY AND CAPITAL RESOURCES

The Company had \$3,908,652 of unrestricted cash at June 30, 2006 as compared to \$4,427,406 of unrestricted cash at December 31, 2005

Net cash used by operating activities for the six months ended June 30, 2006 decreased by \$382,991 to \$119,707 compared to \$502,696 for the six months ended June 30, 2005. This decrease is attributable to a \$46,568 decrease in our net loss and a decrease of approximately \$335,000 in net adjustments to reconcile our net loss to the net cash used by operating activities. The most significant changes in these net adjustments were comprised primarily of: i.) an increase of \$698,029 in the change in securities sold, not yet purchased, used as a hedge against an increase in investments in trading securities ii.) a decrease of \$571,604 in the change in accounts receivable, primarily as a result of a payback of a customer debit of approximately \$450,000 iii.) an increase of \$459,434 in the change in accounts payable and accrued liabilities, primarily as a result of an increase in payables to brokers driven by higher revenues iv.) a \$272,255 increase in depreciation and amortization, and v.) a \$233,381 increase in stock based compensation, partially offset by a \$909,870 increase in non-cash fees received due to higher total investment banking revenues and an increase of \$951,595 in the investments in trading securities.

Net cash used in investing activities for the six months ending June 30, 2006, was \$338,305 compared to \$333,307 for the six months ending June 30, 2005. Net cash used in investing activities for the six months ended June 30, 2006 included \$161,922 for an investment in an unconsolidated affiliate. Partially offsetting this use of cash was a decrease in the additions to our fixed assets under capital leases during the first six months of 2006 compared to the first six months of 2005. In the first six months of 2005, the Company invested in its disaster recovery plan by implementing communication redundancy systems that enables us to continuously service our clients.

Net cash used in financing activities for the six months ending June 30, 2006, was \$60,742 as compared to net cash provided by financing activities of \$357,688 for the six months ending June 30, 2005. In 2005 the Company entered into approximately \$300,000 of new capital lease agreements related to its investment in its disaster recovery plan.

The Company believes that its cash on hand is sufficient to meet its working capital requirements over the next 12 months. However, the Company anticipates that it may need additional debt or equity financing in order to carry out its long-term business strategy. Such funding may be a result of bank borrowings, public offerings, private placements of equity or debt securities, or a combination of the foregoing.

We do not have any material commitments for capital expenditures over the course of the next fiscal year.

The Company's operations are not affected by seasonal fluctuations but they are affected by the overall performance of the U.S. economy and to some extent reliant on the continued execution of the Company's mergers and acquisitions strategy and related financings.

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of Operations

CRITICAL ACCOUNTING ESTIMATES

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

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

REVENUE RECOGNITION. The Company periodically receives equity instruments which include stock purchase warrants and common and preferred stock from companies as part of our compensation for investment-banking services that are classified as investments in trading securities on the balance sheet if still held at the financial reporting date. These instruments are stated at fair value in accordance with SFAS #115 "Accounting for certain investments in debt and equity securities" and EITF 00-8 "Accounting by a grantee for an equity instrument to be received in conjunction with providing goods or services." Primarily all of the equity instruments are received from small public companies. The stock and stock purchase warrants received are typically restricted as to resale, though the Company generally receives a registration right within one year. Company policy is to sell these securities in anticipation of short-term market movements. The Company recognizes revenue for these stock purchase warrants when received based on the Black Scholes valuation model. The revenue recognized related to other equity instruments is determined based on available market information, discounted by a factor reflective of the expected holding period for those particular equity instruments. On a monthly basis, the Company recognizes unrealized gains or losses in the statement of operations based on the changes in value in the stock purchase warrants and other equity instruments. Realized gains or losses are recognized in the statement of operations when the related stock purchase warrant or other equity instrument is sold.

Occasionally, the Company receives equity instruments in private companies with no readily available market value. Equity interests and warrants for which there is not a public market are valued based on factors such as significant equity financing by sophisticated, unrelated new investors, history of positive cash flow from operations, the market value of comparable publicly traded companies (discounted for liquidity) and other pertinent factors. Management also considers recent offers to purchase a portfolio company's securities and the filings of registration statements in connection with a portfolio company's initial public offering when valuing warrants.

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June 30, 2006

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

CUSTOMER CLAIMS. In the normal course of business, our operating subsidiaries have been and continue to be the subject of numerous civil actions and arbitrations arising out of customer complaints relating to our activities as a broker-dealer, as an employer and as a result of other business activities. In general, the cases involve various allegations that our employees had mishandled customer accounts. Based on our historical experience and consultation with counsel, the Company typically reserves an amount the Company believes will be sufficient to cover any damages assessed against us. However, the Company has in the past been assessed damages that exceeded our reserves. If the Company misjudged the amount of damages that may be assessed against us from pending or threatened claims or if the Company is unable to adequately estimate the amount of damages that will be assessed against us from claims that arise in the future and reserve accordingly, our operating income would be reduced.

FAIR VALUE. "Investments in trading securities" and "Securities sold, not yet purchased" on our consolidated balance sheet are carried at fair value or amounts that approximate fair value, with related unrealized gains and losses recognized in our results of operations. The estimates of fair value are fundamental to our financial condition and results of operations and, in certain circumstances, require complex judgments. vFinance Investments relies upon its clearing firm to provide us with these fair values, because the clearing firms use market data services that provide fair values of securities based on current market prices. In the case of restricted securities, the Company further adjusts the fair values of securities received to reflect the restrictions.

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vFinance, Inc. and Subsidiaries
June 30, 2006

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 counterparties 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.

Our Chief Executive Officer and Interim Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for us. Such officers have concluded (based upon such officers' evaluation of these controls and procedures at the end of the period covered by this report) that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in this report is accumulated and communicated to management, including our principal

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executive officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officers have also indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Our management, including each of the Certifying Officers, does not expect that our disclosure controls or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and their can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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vFinance, Inc. and Subsidiaries
June 30, 2006

Part II. OTHER INFORMATION

ITEM 6. EXHIBITS.

(a) EXHIBITS

- 31.1 - Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 - Certification by Interim Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 - Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 - Certification by Interim Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley act of 2002.

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SIGNATURES

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

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authorized.

Signature -----	Title -----	Date -----
By: /s/ Leonard J. Sokolow ----- Leonard J. Sokolow	Chief Executive Officer and President (Principal Executive Officer)	August 14, 2006
By: /s/ Alan B. Levin ----- Alan B. Levin	Interim Chief Financial Officer and (Principal Financial and Accounting Officer)	August 14, 2006