SOCHRYS COM INC
Form 10-Q
May 14, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-28423

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

NEVADA	58-2541997
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4
(Address of principal executive offices)

Issuers' telephone number: 613-230-7211

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

15,737,786 Shares of the registrant's Common Stock were outstanding as of May 10, 2003

Transitional Small Business Disclosure Format: Yes |_| No |X|

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Consolidated Condensed Balance Sheets
(Unaudited)

	March 31,	December 31,

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 1,232	$ 156,650
Prepaid expenses	206,343	214,708
	207,575	371,358
Property and equipment (note 2)	11,399	9,825
Total assets	$ 218,974	$ 381,183
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	$ 490,218	$ 337,624
Promissory notes payable (note 3)	1,167,151	1,042,151
Total liabilities	1,657,369	1,379,775
Stockholders' Deficiency:		
Common stock, ($0.001 par value Authorized 50,000,000 shares); Issued and outstanding 15,737,786 and 15,727,786 shares at March 31, 2003 and December 31, 2002, respectively	15,736	15,726
Additional paid in capital	5,047,272	5,045,282
Deficit accumulated during the development stage	(6,472,969)	(6,031,166)
Retained earnings prior to entering development stage	21,304	21,304
Treasury stock (7,000 shares at March 31, 2002 and December 31, 2001, at cost)	(49,738)	(49,738)
Total stockholders' deficiency	(1,438,395)	(998,592)
Basis of Presentation (note 1)		
Commitment (note 5)		
Total liabilities and stockholders' deficiency	$ 218,974	$ 381,183

See accompanying notes to unaudited interim period consolidated condensed financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Consolidated Condensed Statements of Operations
For the three months ended March 31, 2003 and 2002
And for the Period from August 3, 1999 to March 31, 2003
(Unaudited)

	2003	2002	Period f August 1999 to March 3 2003 (note 1
Operating expenses			
Selling, general and administrative	$ 254,170	$ 122,461	$ 2,712,
Research and development	163,144	90,000	3,599,
Interest	23,456	5,689	193,
Other	(29)	--	8,
Amortization	1,062	--	191,
Gain on sale of property and equipment	--	--	(7,
Write-off of accounts receivable	--	--	16,
Write-off of due from related party	--	--	12,
Loss on cash pledged as collateral for operating lease	--	--	21,
Write-down of property and equipment	--	--	14,
Gain on extinguishment of debt	--	--	(291,
	441,803	218,150	6,472,
Net loss	$ (441,803)	$ (218,150)	$(6,472,
Loss per share	$(0.03)	$(0.01)	
Weighted average number of common shares outstanding during period	15,732,230	15,577,703	

See accompanying notes to unaudited interim period
consolidated condensed financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Consolidated Condensed Statements of CASH FLOWS
For the three months ended March 31, 2003 and 2002
And for the Period from August 3, 1999 to March 31, 2003
(Unaudited)

	2003	2002	Period from August 3, 1999 to March 31, 2003 (note 1)
Cash flows from operating activities:			
Net loss	$ (441,803)	$(218,150)	$(6,472,969

Adjustments to reconcile net loss to net cash used in Operating activities:			
Amortization of property and equipment	1,062	--	191,331
Consulting fees	2,000	71,775	203,775
Interest expense	23,456	5,689	196,756
Currency translation adjustment on liquidation of investment in foreign subsidiary	--	--	(26,212
Gain on sale of property and equipment	--	--	(7,442
Gain on extinguishment of debt	--	--	(291,507
Write-off of accounts receivable	--	--	16,715
Write-off of due to related party	--	--	12,575
Loss on cash pledged as collateral for operating lease	--	--	21,926
Write-down of property and equipment	--	--	14,750
Increase (decrease) in cash resulting from changes in:			
Prepaid expenses	8,365	(20,209)	(48,681
Due to a related party	--	--	(5,178
Accounts payable and accrued liabilities	129,138	52,497	1,999,066
Net cash used in operating activities	(277,782)	(108,398)	(4,195,095
Cash flows from investing activities:			
Additions to property and equipment	(2,636)	--	(322,482
Proceeds on sale of property and equipment	--	--	176,890
Cash pledged as collateral for operating lease	--	--	(21,926
Net cash used in investing activities	(2,636)	(--)	(167,518
Cash flows from financing activities:			
Increase in due from related party	--	--	12,575
Issuance of common shares	--	--	2,030,000
Share issuance costs	--	--	(96,750
Redemption of common stock	--	--	(49,738
Issuance of promissory notes	125,000	110,000	2,430,528
Repayment of promissory notes	--	--	(16,000
Net cash provided by financing activities	125,000	110,000	4,310,615
Effects of exchange rates on cash and cash equivalents	--	--	18,431
Net increase (decrease) in cash and cash equivalents	(155,418)	1,804	(33,567
Cash and cash equivalents:			
Beginning of period	156,650	704	34,799
End of period	$ 1,232	$ 2,508	$ 1,232

See accompanying notes to unaudited interim period consolidated condensed financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Notes to Consolidated Condensed Financial Statements
March 31, 2003
(Unaudited)

Validian Corporation (the "Company") was incorporated in the State of Nevada on April 12, 1989 as CCC Funding Corp. The Company went through several name changes before being renamed to Validian Corporation on January 28, 2003.

Since August 3, 1999, the efforts of the Company have been devoted to the development of a high speed, highly secure method of transacting business using the internet. As of the date of these financial statements, no software applications were ready for commercial use. Prior to August 3, 1999, the Company provided consulting services for web site implementation, multimedia CD design, computer graphic publication, as well as implementation of dedicated software solutions used in connection with the French Minitel and the internet. As the Company commenced development activities on this date, it is considered for financial accounting purposes to be a development stage enterprise and August 3, 1999 is the commencement of the development stage.

1. Basis of Presentation

The accompanying consolidated condensed financial statements include the accounts of Validian Corporation and its wholly owned subsidiaries (collectively, the "Company") after elimination of all significant intercompany balances and transactions. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While management has based its assumptions and estimates on the facts and circumstances currently known, final amounts may differ from such estimates.

The interim financial statements contained herein are unaudited but, in the opinion of management, include all adjustments (consisting only of normal recurring entries) necessary for a fair presentation of the financial position and results of operations of the Company for the periods presented. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the operating results for the full fiscal year ending December 31, 2003. Moreover, these financial statements do not purport to contain complete disclosure in conformity with generally accepted accounting principles used in the United States and should be read in conjunction with the Company's audited financial statements at and for the year ended December 31, 2002.

The consolidated condensed financial statements have been prepared assuming that the Company will continue as a going concern. The Company has no revenues, has negative working capital of $1,449,794 as at March 31, 2003, and has incurred a loss of $441,803 and negative cash flow from operations of $277,782 for the quarter. The Company has accumulated a deficit of $6,472,969 during the development stage, and has a stockholders' deficiency of $1,438,395. In addition, the Company expects to continue to incur operating losses for the foreseeable future and has no lines of credit or other financing facilities in place. To date, the Company has been able to finance its operations on a month-to-month basis from investors who recognize the advancement of the Company's research and development activities.

If the Company obtains further financing, it expects to incur research and development expenditures of approximately $800,000 for the year ending December 31, 2003 and anticipates further growth in operations, infrastructure and personnel. The Company also anticipates an increase in operating expenses to support its growth plans. The Company currently has no lines of credit or other financing facilities in place. In the event the Company cannot raise the funds necessary to support its research and development activities, it will reduce its activities.

All of the factors above raise substantial doubt about the Company's ability to continue as a going concern. Management's plans to address these issues include continuing to raise capital through the private placement of equity and renegotiating the repayment terms of accounts payable, accrued liabilities and promissory notes payable. The Company's ability to continue as a going concern is subject to management's ability to successfully implement the above plans. Failure to implement these plans could have a material adverse effect on the Company's position and or results of operations and may result in ceasing operations. The consolidated financial statements do not include adjustments that would be required if the assets are not realized and the liabilities settled in the normal course of operations.

Even if successful in obtaining financing in the near term,, the Company cannot be certain that cash generated from its future operations will be sufficient to satisfy its liquidity requirements in the longer term, and it may need to continue to raise capital by selling additional equity or by obtaining credit facilities. The Company's future capital requirements will depend on many factors, including, but not limited to, the market acceptance of its products, the level of its promotional activities and advertising required to generate product sales. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favorable to the Company.

2. Property and equipment

Property and equipment consists of computer hardware and software, and is stated at cost less accumulated amortization. These assets are being amortized on a straight-line basis over their estimated useful life of three years.

3. Promissory notes payable

	March 31, 2003	Dec 31, 2002
Promissory notes payable, bearing interest at 12%, due on demand, unsecured	$ 667,151	$ 542,151
Promissory notes payable, bearing interest at 5%, maturing on October 7, 2003, convertible into common shares at any time, unsecured	500,000	500,000
	$1,167,151	$1,042,151

The holder of the 5% promissory notes may, at any time, convert all or part of the outstanding principal and accrued interest into common shares at the lesser of (i) the ratio of 1 common share for each $0.33 of obligation converted; or (ii) the ratio of shares with a value equal to the price per share at which common shares have last been issued to a third party dealing at arms length with the Company.

During the period from April 1 to May 8, 2003, the Company issued a further $197,000 of 12% demand notes, having terms as described above for the 12% demand notes issued prior to March 31, 2003.

4. Common stock transactions

During the three months ended March 31, 2003 the Company issued 10,000 shares of its common stock, valued at $2,000 ($0.20 per common share) to an unrelated company in consideration for consulting services rendered.

5. Commitment

During the three months ended March 31, 2003, the Company entered into a fixed-price contract with a supplier for consulting services totalling $30,000. The Company will recognize the remaining expense of $11,000 as services are rendered by the supplier, which is expected to occur during the three months ending June 30, 2003.

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

FORWARD-LOOKING INFORMATION

The discussion in this Form 10-QSB contains both historical information and forward-looking information. The forward-looking information, which generally is information stated to be anticipated, expected or projected by us, involves known and unknown risks, uncertainties and other factors which may cause our actual results and performance to be materially different from any future results and performance expressed or implied by such forward-looking information. Potential risks and uncertainties include, without limitation and in addition to other factors discussed in this report:

- the uncertainties inherent in the development of new software applications;
- our need for additional capital funding;
- the need for acceptance of our software applications by third party payers; and
- rapid developments in technology, including developments by competitors.

We are a software development company focused on developing and commercializing products based on our technology that provides a multi-platform development environment and facilitates secure communications on the internet.

RESULTS OF OPERATIONS

The Three Months Ended March 31, 2003 Compared to the Three Months Ended March 31, 2002

Revenue: We generated no revenues during the three months ended March 31, 2003, nor did we generate any revenues during the three months ended March 31, 2002.

As of August 1999 we directed all of our attention towards the completion of the software applications discussed above. We believe that if we are successful in our development and marketing efforts, we will generate a source of revenues in the future from sales and/or licensing of our software applications.

Selling, General and Administrative Expenses: Selling, general and administrative expenses consist primarily of personnel costs, professional fees, communications, occupancy costs and other miscellaneous costs associated with supporting our research and development and sales and marketing activities. During the three months ended March 31, 2003 we spent $254,170, as compared to $122,461 during the three months ended March 31, 2002. This increase of $131,709 (108%) is primarily a result of our increased efforts in the sale and marketing of our products. Our current marketing program was commenced during the third quarter of 2002, with the objective of increasing the beta sites and positioning ourselves within the marketplace, in order to obtain future commercial sales of our products once their development has been completed.

Research and Development Expenses: Research and development expenses consist primarily of personnel costs and consulting expenses directly associated with the development of our software applications. During the three months ended March 31, 2003 we spent $163,144, an increase of $73,144 (81%) over the $90,000 we spent during the three months ended March 31, 2002, developing our software applications. This increase occurred as a result of additional senior level personnel being added to our development team, commencing in the third quarter of 2002.

Net Loss: We incurred a loss of $441,803 ($0.03 per share) for the three months ended March 31, 2003, compared to $218,150 ($0.01 per share) for the three months ended March 31, 2002. Our revenues and future profitability and future rate of growth are substantially dependent on our ability to:

- complete the development of products based on our technology;
- identify clients willing to install beta sites for our products;
- operate successfully these beta sites, integrating our technology into their operations;
- modify the software applications based on the results of the beta site trials;
- license the software applications to a sufficient number of clients;
- modify the successful software applications, over time, to provide enhanced benefits to existing users;
- successfully develop related software applications.

LIQUIDITY AND CAPITAL RESOURCES

General: Since inception we have funded our operations from private placements of debt and equity, including the exercise of warrants issued by us in August 1999. In addition, until September 1999 we derived revenues from consulting contracts with affiliated parties, the proceeds of which were used to fund operations. Until such time as we are able to generate adequate revenues from the licensing of our software applications we cannot assure that cash from the issuance of debt securities, the exercise of existing warrants and the placements of additional equity securities will be sufficient to fund our research and development and general and administrative expenses.

During the period from April 1 to May 8, 2003 we issued $197,000 of 12% demand notes as described in Note 3 to the financial statements. At this time we have no other committed sources of equity or debt, and need to locate such sources on an on-going basis. Failure to raise the funds necessary to support our activities could have a material adverse effect on our position and or results of operations and may result in ceasing operations.

Sources of Capital: In August 1999 we made a transition in business strategies. Prior to August 1999 we provided consulting services in addition to developing our core technology. Since then, we have directed all of our efforts to developing of our software applications. Our principal source of capital for funding our business activities subsequent to August 1999 has been the private placements of equity, primarily from the exercise of the warrants we issued in August 1999.

During the three months ended March 31, 2003 we issued $125,000 of 12% demand notes to partially fund operations. Also during the three months ended March 31, 2003 the Company issued 10,000 shares of its common stock, valued at $2,000 ($0.20 per common share) to an unrelated company in consideration for marketing services rendered.

Uses of Capital: Since commencing operations in February 1995 through July 1999 we generated revenues from consulting contracts and used the funds in excess of that required to perform the consulting services to fund the development of the software applications. Since August 1999 we have directed our efforts towards the development of our software applications. In May 2000, we started to actively market our software applications. We commenced our current marketing program during the third quarter of 2002, and have added three full-time marketing and sales personnel plus two sales agents to assist in this effort. The objective of this program is to increase the beta sites and to gain market recognition for our company and our products, in order to generate future commercial sales of our products in the earliest time-frame possible once the development of our products has been completed.

Item 3. CONTROLS AND PROCEDURES

Our management, including the Chief Executive Officer and the Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the three months ended March 31, 2003 the Company issued 10,000 shares of its common stock, valued at $2,000 ($0.20 per common share) to an unrelated company in consideration for consulting services rendered.

ITEM 3. DEFAULTS ON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

Exhibit 99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 99.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

We filed a report on Form 8-K with the Commission on February 6, 2003 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

VALIDIAN CORPORATION

By: /s/ Andre Maisonneuve

Andre Maisonneuve
Chairman, President,
Chief Executive Officer
& Chief Financial Officer

Dated: May 14, 2003

CERTIFICATIONS

Certifications pursuant to Securities and Exchange Act of 1934 Rule 13a-14 as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002:

I, Andre Maisonneuve, Chief Executive Officer of Validian Corporation (the "Company") certify that:

(1) I have reviewed this quarterly report on Form 10-QSB of the Company;

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

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

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

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

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

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

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

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

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

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

/S/ Andre Maisonneuve

Andre Maisonneuve
Chief Executive Officer
May 14, 2003

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I, Andre Maisonneuve, Chief Financial Officer of Validian Corporation (the "Company") certify that:

(1) I have reviewed this quarterly report on Form 10-QSB of the Company;

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

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

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

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

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

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

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

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

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

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

/S/ Andre Maisonneuve

Andre Maisonneuve
Chief Financial Officer
May 14, 2003