

Edgar Filing: BRAINWORKS VENTURES INC - Form 10QSB

BRAINWORKS VENTURES INC  
Form 10QSB  
November 14, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-QSB

(Mark one)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE  
EXCHANGE ACT OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-06334

BRAINWORKS VENTURES, INC.  
(Exact name of small business issuer as specified in its charter)

NEVADA  
(State of Incorporation)

87-0281240  
(IRS Employer ID Number)

1200 ABERNATHY ROAD, SUITE 1800, ATLANTA, GEORGIA 30328  
(Address of principal executive offices)

(678) 579-9616  
(Issuer's telephone number, including area code)

101 MARIETTA STREET, SUITE 3450, ATLANTA, GEORGIA 30303  
(Former name, former address and former fiscal year, if changed since last  
report)

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Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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

State the number of shares outstanding of each of the issuer's classes  
of common equity, as of the latest practicable date: 2,280,936 shares as of  
November 6, 2002.

Transitional Small Business Disclosure Format (check one):  
Yes  No

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BRAINWORKS VENTURES, INC.  
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FOR THE QUARTER ENDED SEPTEMBER 30, 2002

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BRAINWORKS VENTURES, INC.  
CONSOLIDATED BALANCE SHEET  
AS OF SEPTEMBER 30, 2002

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ASSETS

Current assets:

Cash	\$ 94,000
Prepaid expenses and other current assets	18,000
	-----
Total current assets	112,000

Fixed assets, net of accumulated depreciation of \$2,000	6,000
Investments in non-marketable equity securities	43,000
	-----

Total Assets	\$ 161,000
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	\$ 2,000
	-----

Total current liabilities	2,000
---------------------------	-------

Stockholders' equity:

Common stock, \$0.01 par value; authorized 25,000,000 shares; issued and 2,280,936 shares outstanding	23,000
Additional paid-in capital	7,887,000
Deferred compensation	(20,000)
Receivables for stock	(10,000)
Accumulated deficit	(7,721,000)
	-----

Total stockholders' equity	159,000
	-----

Total Liabilities and Stockholders' Equity	\$ 161,000
	=====

See accompanying notes to consolidated financial statements

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BRAINWORKS VENTURES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended September 30,		Six ended S
2002	2001	2002
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Revenues	\$ 16,000	\$ 398,000	\$ 40,000
Cost of Revenues	6,000	404,000	15,000
Gross profit (loss)	10,000	(6,000)	25,000
Selling, general and administrative expenses	213,000	1,169,000	734,000
Impairment of long lived assets	(0)	(0)	(377,000)
Loss from operations	(203,000)	(1,175,000)	(1,086,000)
Interest and dividends	0	7,000	1,000
Loss before income tax provision	(203,000)	(1,168,000)	(1,085,000)
Income tax provision	0	0	0
Net loss	(203,000)	(1,168,000)	(1,085,000)
Net loss per common share- basic and diluted	\$ (0.08)	\$ (0.48)	\$ (0.45)
Weighted number of shares outstanding, basic and diluted	2,458,000	2,428,000	2,428,000

See accompanying notes to consolidated financial statements

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BRAINWORKS VENTURES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED SEPTEMBER 30,

2002

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (1,085,000)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	32,000
Loss on Disposal of Fixed Assets	212,000
Stock issued for compensation	

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Impairment Losses on Intangible Assets	267,000
Deferred compensation amortization	356,000
Changes in operating assets and liabilities:	
Accounts receivable	17,000
Prepaid expenses and other current assets	20,000
Accounts payable and accrued liabilities	(166,000)
Due to stockholders	
	-----
Net cash provided by (used in) operating activities	(347,000)
	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Proceeds from sale of assets	44,000
Acquisition expenses	0
	-----
Net cash used in investing activities	44,000
	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Collections of stock subscriptions receivable	
Notes receivable from officers/ stockholders	
	-----
Net cash used in financing activities	
	-----
NET DECREASE IN CASH	(303,000)
Cash, beginning of period	397,000
	-----
CASH, END OF PERIOD	\$ 94,000
	=====
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
<b>NON-CASH INVESTING AND FINANCING TRANSACTIONS:</b>	
Value of options issued	\$ 0
Value of stock issued for acquisition	\$ 0
Value of stock issued for fixed assets	\$ 0

See accompanying notes to consolidated financial statements

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BRAINWORKS VENTURES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - THE COMPANY AND BASIS OF PRESENTATION

Brainworks Ventures, Inc., a Nevada corporation ("BWV"), together with its wholly-owned subsidiaries, Brainworks Ventures Labs, Inc ("BVL") and Executive Ventures Partners, Inc. ("EVP"), referred to herein collectively as the "Company," develops, invests in and operates internet and other technology companies located primarily in the southeastern United States.

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The accompanying unaudited, consolidated, financial statements include the accounts of BWV and its wholly-owned subsidiaries EVP and BVL. All intercompany balances and transactions have been eliminated. These unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the instructions to Form 10-QSB 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, such statements include all adjustments (consisting of normally recurring accruals) considered necessary for fair presentation. Operating results for the six-month period ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ended March 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended March 31, 2002.

The Company has sustained a significant operating loss for the six-month period ended September 30, 2002, and the Company's operations have generated negative cash flow. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company has implemented cost controls to reduce operating expenses. Management's plans include raising additional capital and/or debt financing or the sale of the Company. If the Company raises additional funds by issuing additional equity securities, then the percentage ownership of the Company's current stockholders will be diluted. There is no assurance that such capital and/or debt financing will be available on terms acceptable to the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

### NET LOSS PER SHARE

Basic and diluted loss per share for the three-month and six-month periods ended September 30, 2002 and September 30, 2001 is computed based on the weighted average number of common shares outstanding. Common shares issuable on the exercise of options are not included in the calculation of net loss per share because their effect would be antidilutive.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Certain statements contained in this Quarterly Report on Form 10-QSB are "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, and are thus prospective in nature. Such forward-looking statements reflect management's beliefs and assumptions and are based on information currently available to management. The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to differ materially from those expressed or implied in such statements. There can be no assurance that such factors or other factors will not affect the accuracy of such forward-looking statements

### RESULTS OF OPERATIONS

For the three months ended September 30, 2002 and 2001, the Company recorded revenues of \$16,000, and \$398,000, respectively. The source of revenue is primarily consulting services provided by BVL during the period ended September

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30, 2002.

For the three months ended September 30, 2002 and 2001, the cost of revenue was \$6,000 and \$404,000, respectively. The cost of revenue is primarily consulting and payroll expenses.

For the three months ended September 30, 2002, the selling, general and administrative expenses amounted to \$213,000, a decrease of \$956,000 over the corresponding period ended September 30, 2001. The decrease was primarily due to reduced payroll expenses and operating costs and a reduction in the non-cash compensation charge related to amortization of stock options granted to consultants and advisors.

For the six months ended September 30, 2002 and 2001, the Company recorded revenues of \$40,000 and \$529,000, respectively. The decrease in revenue is primarily due to no consulting revenue being earned by EVP for the period ended September 30, 2002.

For the six months ended September 30, 2002 and 2001, the cost of revenue was \$15,000 and \$484,000, respectively. The cost of revenue is primarily consulting and payroll expenses.

For the six months ended September 30, 2002, the selling, general and administrative expenses amounted to \$734,000, a decrease of \$1,290,000 over the corresponding period ended September 30, 2001. The decrease is primarily due to reduced payroll and operating costs and non-cash compensation charge of \$356,000 related to the amortization of stock options granted to consultants and advisors. Selling, general and administrative expenses for the six month-period ended September 30, 2001 included non-cash compensation charge of \$787,000 related to the expensing of stock options granted for services.

### LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2002, working capital was \$110,000 compared to \$284,000 at March 31, 2002. This decrease was principally due to cash used in operations resulting from the current period loss.

For the six months ended September 30, 2002, net cash used in operating activities was \$347,000 and net cash provided by investing activities was \$44,000. For the six months ended September 30, 2001, net cash used in operations was \$352,000, net cash used in investing activities was \$78,000 and net cash provided by financing activities was \$227,000.

Current assets as of September 30, 2002 was \$112,000, a decrease of \$340,000 from March 31, 2002 and a decrease of \$453,000 from September 30, 2001. Total assets as of September 30, 2002 of \$161,000 represents a decrease of \$895,000 in total assets from March 31, 2002, and a decrease in total assets from September 30, 2001 of \$3,494,000. This decrease in total assets was primarily due to operating losses over the period and the devaluation of the intangible assets associated with the acquisition of EVP and EBL.

The Company believes it as the capital to fund operations for at least the next 12 months while it continues to explore new opportunities that it believes can add to shareholder value. The Company anticipates that the early stage venture capital business shall continue to be extremely challenging. Discussions have been held with third parties concerning a reorganization or sale of the Company, but no definitive agreements have been reached in connection with such discussions.

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### INFLATION

The Company does not currently view the effects of inflation as having a material effect on the Company's business.

### ITEM 3. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

#### (b) Changes in Internal Controls.

Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

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### PART II - OTHER INFORMATION

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

#### (a) Exhibits.

99.1 Certification of the Company's Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of the Company's Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

#### (b) Reports on Form 8-K.

The Company did not file any Current Reports on Form 8-K during the quarter ended September 30, 2002.

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### SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused



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this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BRAINWORKS VENTURES, INC.

By: /s/ Marc J. Schwartz

-----  
Marc J. Schwartz  
President/Treasurer

Dated: November 14, 2002

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### CERTIFICATIONS

I, Donald Ratajczak, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Brainworks Ventures, Inc.;
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 period 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 registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers 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 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 officers 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 functions):
  - a) all significant deficiencies in the design or operation of internal controls

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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 officers 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.

Date: November 14, 2002

/s/ Donald Ratajczak

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Donald Ratajczak  
Chairman of the Board and  
Chief Executive Officer

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I, Marc J. Schwartz, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Brainworks Ventures, Inc.;

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 period 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 registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers 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 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 officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of

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registrant's board of directors (or persons performing the equivalent functions):

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 officers 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.

Date: November 14, 2002

/s/ Marc J. Schwartz

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Marc J. Schwartz  
President and Chief Financial Officer

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EXHIBIT INDEX

- 99.1 Certification of the Company's Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of the Company's Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.