BRAINWORKS VENTURES INC
Form 10QSB
August 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark one)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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	87-0281240
(State of Incorporation)	(IRS Employer ID Number)

101 MARIETTA STREET, SUITE 3450, ATLANTA, GEORGIA 30303
(Address of Principal Executive Offices)

(404) 524-1667
(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 August 13, 2002.

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

BRAINWORKS VENTURES, INC.
INDEX TO FORM 10-QSB
FOR THE QUARTER ENDED JUNE 30, 2002

PART I - FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS	
Current assets:	
Cash	$ 286,000
Other receivables	10,000
Prepaid expenses and other current assets	28,000
Total current assets	324,000
Fixed assets, net of accumulated depreciation of $56,000	116,000
Investments in non-marketable equity securities, at cost	43,000
Total assets	$ 483,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued liabilities	$ 153,000
Total current liabilities	153,000
Stockholders' equity	
Common stock, $0.01 par value; authorized 25,000,000 shares; Issued and outstanding 2,280,936 shares	23,000
Additional paid-in capital	7,887,000
Deferred compensation	(52,000)
Receivables for stock	(10,000)
Accumulated deficit	(7,518,000)

Total stockholders' equity	330,000
Total liabilities and stockholders' equity	$ 483,000

See accompanying notes to consolidated financial statements

BRAINWORKS VENTURES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
JUNE 30, 2002 AND JUNE 30, 2001

	THREE MONTHS ENDED JUNE 30,	
	2002	2001
Revenues	$ 24,000	$ 131,000
Cost of Revenues	9,000	80,000
Gross profit	15,000	51,000
Selling, general and administrative expenses	522,000	$ 855,000
Impairment of long lived assets	(377,000)	
Loss from operations	(884,000)	(804,000)
Interest and dividends	1,000	9,000
Loss before income tax provision	(883,000)	(795,000)
Income tax provision	0	0
Net loss	$ (883,000)	$ (795,000)
Net loss per common share- basic and diluted	$ (0.36)	$ (0.35)
Weighted number of shares outstanding, basic and diluted	2,465,000	2,249,000

See accompanying notes to consolidated financial statements

BRAINWORKS VENTURES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED
JUNE 30, 2002 AND JUNE 30, 2001

	THREE MON ENDED JUN
	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$(883,000)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	56,000
Impairment Charges on Intangible Assets	377,000
Stock issued for compensation	
Income taxes payable	
Deferred compensation amortization	322,000
Changes in operating assets and liabilities	
Accounts receivable	7,000
Prepaid expenses and other current assets	10,000
Other receivables	
Accounts payable and accrued liabilities	4,000
Net cash provided by (used in) operating activities	(107,000)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition costs	
Purchase of fixed assets	
Proceeds from sale of investments	
Purchase of investments	
Net cash (used in) provided by investing activities	0
CASH FLOWS FROM FINANCING ACTIVITIES:	
Collections of stock subscriptions receivable	
Notes receivable from officers/ stockholders	
Proceeds from the sale of treasury stock	
Net proceeds from issuance (return) of shares	(3,000)
Net cash provided by financing activities	(3,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(110,000)
Cash, beginning of period	397,000
CASH, END OF PERIOD	$ 287,000

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

NON-CASH INVESTING AND FINANCING TRANSACTIONS:

Value of options issued	$	0
Value of stock issued for acquisition	$	0
Value of stock issued for fixed assets	$	0
Value of stock issued for compensation	$	0

See accompanying notes to consolidated financial statements

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.

On February 14, 2001, BWV acquired BVL, a venture development company that provides business consulting services to early stage technology companies. On May 8, 2001, BWV acquired EVP, a consulting company that specializes in the development and implementation of corporate venturing programs.

The accompanying unaudited, consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, EVP and BVL, from their respective dates of acquisition. All inter-company 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 three-month period ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending March 31, 2003. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended March 31, 2002, filed with the Securities and Exchange Commission on July 1, 2002.

The Company has sustained a significant operating loss for the three-month period ended June 30, 2002, and operating losses are expected to continue. Further, the Company's operations continue to generate negative cash flow. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company has implemented cost control measures 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 to the Company when and to the extent required or that, if available, it will be available on terms acceptable to the Company. The consolidated financial statements included herein 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 period ended June 30, 2002 and June 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.

The following unaudited condensed statements of operations assume the Company's acquisition of EVP occurred on April 1, 2001. In the opinion of management, all adjustments necessary to present fairly such unaudited pro forma statements have been made.

NOTE B - RECLASSIFICATION

Certain items in the Company's Quarterly Report on Form 10-QSB for the period ended June 30, 2002, have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported income.

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 June 30, 2002 and 2001, the Company recorded revenues of $24,000 and $131,000, respectively. The source of revenue is from consulting services provided by BVL during the period ended June 30, 2002.

For the three months ended June 30, 2002 and 2001, the cost of revenue was $9,000 and $80,000, respectively. The cost of revenue is primarily consulting and payroll expenses.

For the three months ended June 30, 2002, selling, general and administrative expenses were $522,000, a decrease of $333,000 over the corresponding period ended June 30, 2001. The decrease was primarily due to reduced payroll expenses and operating costs and a reduction of the non-cash compensation charge of $50,000 related to amortization of stock options granted to consultants and advisors.

Subsequent to June 30, 2002, the Company entered into an agreement to amend BVL's lease agreement, pursuant to which BVL leases office space which is utilized by the Company as its principal offices, so as to terminate such lease agreement effective August 31, 2002 in exchange for a payment of $88,500.00. In connection with the termination of this lease, the value of the Company's leasehold improvements were written down to zero. Due to this change, a $157,000 impairment charge was made to the income statement.

For the three months ended June 30, 2002, the Company has determined that the intangible asset value of BVL and EVP should be reduced to zero due to the Company's uncertainty as to whether any future earnings from such assets will be achieved. To facilitate this reduction, an impairment charge of $220,000 was made to the income statement.

For the three months ended June 30, 2002, deferred compensation and payroll expense charges reflect the cancellation of certain non-qualified options. Such cancellation resulted in a one-time non-cash charge of $227,000.

The Company continues to incur significant operating costs. These costs primarily consist of payroll expenses, professional fees and consulting expenses.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2002, working capital was $171,000 compared to $303,000 at March 31, 2002. This decrease was principally due to cash used in operations resulting from the current period loss.

For the three months ended June 30, 2002, net cash used in operating activities was $107,000, net cash used in investing activities was zero and net cash provided by financing activities was $3,000 due to the reduction of the Company's outstanding shares of common stock by 280,250 shares.

Current assets as of June 30, 2002 were $324,000, a decrease of $128,000 from March 31, 2002 and a decrease of $568,000 from June 30, 2001. Total assets of $483,000 on June 30, 2002, represents a decrease of $573,000 in total assets from March 31, 2002 and a decrease in total assets from June 30, 2001 of $3,784,000. This decrease in total assets was primarily due to the Company's write offs of the intangible asset value of BVL and EVP and the value of leasehold improvements and a reduction in cash and accounts receivable.

INFLATION

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

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 June 30, 2002.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused 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 and Treasurer

Dated: August 13, 2002

EXHIBIT INDEX

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