

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

CHANGE TECHNOLOGY PARTNERS INC
Form 10-Q
November 14, 2002

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarter ended September 30, 2002
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

COMMISSION FILE NUMBER: 0-13347

CHANGE TECHNOLOGY PARTNERS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

06-1582875
(I.R.S. Employer
Identification no.)

537 STEAMBOAT ROAD, GREENWICH, CONNECTICUT
(Address of principal executive offices)

06830
(Zip Code)

(203) 661-6942
(Issuer's telephone number, including area code)

N/A
(Former names, former address and former fiscal year,
if changed since last report)

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 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 .

Check whether the issuer is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No .

The number of shares of the issuer's common stock outstanding on November 13, 2002 was approximately 182,037,507.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

ITEM 1 - CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets as of September 30, 2002 (unaudited)
and December 31, 2001.....

Consolidated Statements of Operations for the three
months ended September 30, 2002 and 2001 (unaudited).....

Consolidated Statements of Operations for the nine
months ended September 30, 2002 and 2001 (unaudited).....

Consolidated Statement of Stockholders' Equity for the nine
months ended September 30, 2002 (unaudited).....

Consolidated Statements of Cash Flows for the nine
months ended September 30, 2002 and 2001 (unaudited).....

Notes to Unaudited Interim Condensed Consolidated Financial Statements.....

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4 - CONTROLS AND PROCEDURES

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS.....

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS.....

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES.....

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

ITEM 5 - OTHER INFORMATION.....

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

ITEM 7 - SIGNATURES.....

ITEM 8 - CERTIFICATIONS.....

PART I. FINANCIAL INFORMATION

ITEM 1 - CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

Consolidated Balance Sheets
(in thousands except share and per share amounts)

	SEPTEMBER 30 2002 (Unaudited)
ASSETS	
Cash and cash equivalents, excluding restricted cash of \$200	\$ 1,533
Accounts receivable, net of allowance of \$0 at September 30, 2002 and December 31, 2001	253
Related party receivable	185
Notes receivable	7,044
Prepaid expenses and other current assets, including restricted cash of \$200 at September 30, 2002 and December 31, 2001	647
Total current assets	9,662
Notes receivable, excluding current portion	405
Investments in and loans to unconsolidated subsidiaries	463
Property and equipment, net	508
Goodwill	1,568
Other assets	603
Total assets	13,209
 LIABILITIES AND STOCKHOLDERS' EQUITY	
Accounts payable	221
Accrued expenses	646
Deferred revenues	152
Capital lease obligation	92
Total current liabilities	1,111
Capital lease obligation, less current portion	22
Deferred rent	16
Total liabilities	1,149
 Stockholders' equity:	
Preferred stock:	
Series A - \$.06 per share cumulative, convertible share- for-share into common stock; \$.10 par value; 500,000 shares authorized, 645 shares issued and outstanding at September 30, 2002 and December 31, 2001, with an aggregate liquidation preference of \$1	--
 Common stock:	
\$.01 par value; 500,000,000 shares authorized, 181,322,881 and 179,022,881 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively	1,813
Additional paid-in capital	94,683
Deferred compensation	(572)

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

Accumulated deficit	(83,864)

Total stockholders' equity	12,060

Total liabilities and stockholders' equity	\$ 13,209
	=====

See accompanying notes to unaudited condensed consolidated interim financial statements.

2

CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

Unaudited Consolidated Statements of Operations
(in thousands except share and per share amounts)

	THRE S
	----- 2002 -----
Revenues	511
Cost of revenues, including amortization of purchased intangibles	301
of \$0 and \$423, respectively	-----
Gross profit (loss)	210
Operating expenses:	
Selling, general, and administrative expenses, exclusive of	
equity based compensation of \$131 and \$159, respectively	1,068
Equity based compensation	131
Severance	0

Total operating expenses	1,199
Loss from operations	(989)
Other income (expense):	
Interest and dividend income	224
Interest expense	(4)
Equity in losses and impairment of investments in	
unconsolidated affiliates	(22)

Net loss	(791)
	=====
Weighted average common shares outstanding,	
basic and diluted	181,322,881
	=====
Basic and diluted net loss per common share	(0.00)

See accompanying notes to unaudited condensed consolidated interim financial statements.

3

CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

Unaudited Consolidated Statements of Operations
(in thousands except share and per share amounts)

	NI
	2002
Revenues	\$ 1,8
Cost of revenues, including amortization of purchased intangibles of \$0 and \$864, respectively	9
Gross profit (loss)	9
Operating expenses:	
Selling, general, and administrative expenses, exclusive of equity based compensation of \$394 and \$2,953, respectively	3,6
Equity based compensation	3
Severance	
Total operating expenses	3,9
Loss from operations	(3,0)
Other income (expense):	
Interest and dividend income	6
Interest expense	(
Equity in losses and impairment of investments in unconsolidated affiliates	(6
Net loss	(3,0)
Weighted average common shares outstanding, basic and diluted	179,798,0
Basic and diluted net loss per common share	(0.

See accompanying notes to unaudited condensed consolidated interim financial statements.

4

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

Unaudited Consolidated Statement of Stockholders' Equity

Nine months ended September 30, 2002
(in thousands except share amounts)

	SERIES A PREFERRED STOCK		COMMON STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance at December 31, 2001.....	645	\$ --	179,022,881	\$ 1,000,000
Amortization of deferred compensation.....	--	--	--	--
Release of shares from escrow in connection with acquisition of Iguana Studios, Inc.....	--	--	2,300,000	--
Net loss.....	--	--	--	--
Balance at September 30, 2002 (unaudited).....	645	\$ --	181,322,881	\$ 1,000,000

	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2001.....	\$ (80,801)	\$ 14,660
Amortization of deferred compensation.....	--	394
Release of shares from escrow in connection with acquisition of Iguana Studios, Inc.....	--	69
Net loss.....	(3,063)	--
Balance at September 30, 2002 (unaudited).....	(83,864)	\$ 12,060

See accompanying notes to unaudited condensed consolidated interim financial statements.

CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows
(in thousands)

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

	NINE SE
	2002
Cash flows from operating activities:	
Net loss	\$ (3,063)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	317
Provision for doubtful accounts	--
Equity based compensation	394
Equity in losses of unconsolidated subsidiary	177
Accretion of loan discount	(72)
Impairment loss	427
Loss on disposal of equipment	--
Accrued interest on notes receivable	(438)
Changes in operating assets and liabilities, net of acquisitions:	
Accounts receivable	(106)
Unbilled receivables	--
Related party receivable	19
Prepaid expenses and other assets	(141)
Deferred revenue	148
Accounts payable and accrued liabilities	(396)
Deferred rent	7

Net cash used in operating activities	(2,727)
Cash flows from investing activities:	
Purchase of property and equipment	(39)
Sale of property and equipment	--
Cash paid for notes receivable and warrant	(4,708)
Principle and interest payments - received	495
Cash paid for cost method investments and acquisitions, net of cash acquired	(278)

Net cash used in investing activities	(4,530)
Cash flows from financing activities:	
Principal payments under capital leases	(102)
Principle payments under loans payable	--

Net cash used in financing activities	(102)
Net decrease in cash and cash equivalents	\$ (7,359)
Cash and cash equivalents at beginning of period	\$ 8,892

Cash and cash equivalents at end of period, excluding restricted cash of \$200	\$ 1,533
	=====

See accompanying notes to unaudited condensed consolidated interim

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

financial statements.

6

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Arinco Computer Systems Inc., the predecessor of the Company and its subsidiaries, (the "Company"), was incorporated on March 31, 1978; however, the Company formally commenced implementation of its plan to provide professional consulting services on June 15, 2000. The Company provided a broad range of professional consulting services, including e-services and technology strategy, online branding, web architecture and design, systems integration, systems architecture and outsourcing. The Company has served clients throughout the United States and, as of September 30, 2002, has offices in Connecticut, New York and California. During the year ended December 31, 2001, the Board of Directors voted to divest the Company of a majority of its then existing operations.

At September 30, 2002, the Company's consolidated subsidiaries are:

- o Iguana Studios, Inc. (which has limited continuing operating activities)
- o Papke-Textor, Inc. d/b/a Canned Interactive ("Canned")

Simultaneous with the divestiture, the Company is evaluating new strategic business and investment opportunities.

Based on the Company's assessment of the opportunities in the radio business, the Board of Directors decided to merge with Franklin Capital Corporation and jointly develop and acquire network radio programming and sales and syndication businesses. On December 4, 2001 the Company entered into an agreement and plan of merger with Franklin Capital. On July 1, 2002, the Company received a notice of termination from Franklin Capital terminating the proposed merger.

On September 30, 2002, the Board of Directors adopted a plan of liquidation and dissolution in order to maximize shareholder value. In reaching its decision, the Board of Directors considered principally the provisions of the Investment Company Act of 1940, which would have required the Company to register as an "investment company" in the absence of the adoption of the plan of liquidation. The plan of liquidation and dissolution anticipates the continuation of the Company's current business activities pending an orderly wind down of its operations. Additionally, the plan provides that in the event the Board of Directors determines that it would be in the best interests of the Company and its stockholders to amend, modify or abandon the plan of liquidation and dissolution, it may do so notwithstanding stockholder approval of the plan. The Company intends to seek stockholder approval of the plan of liquidation and dissolution at its next annual meeting, expected to be held in the spring of 2003. Subject to approval of the plan by holders of a majority of the Company's outstanding shares, the Company plans to sell its assets, discharge its liabilities and distribute the net proceeds to its stockholders.

CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

INTERIM RESULTS

The accompanying unaudited consolidated balance sheet as of September 30, 2002, the unaudited consolidated statements of operations and cash flows for the periods ended September 30, 2002 and 2001, and the unaudited consolidated statement of stockholders' equity as of September 30, 2002 have been prepared by the Company. In the opinion of management, the accompanying condensed consolidated financial statements have been prepared on the same basis as the annual audited financial statements and contain all adjustments, which include only normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows at the dates and for the periods presented in conformity with accounting principles generally accepted in the United States applicable to interim periods.

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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

While the Company believes that the disclosures presented are adequate to make the information not misleading, these condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended December 31, 2001, which are contained in the Company's Annual Report on Form 10-K. The results for the nine month period ended September 30, 2002 are not necessarily indicative of the results to be expected for the full fiscal year or for any future periods.

PRINCIPLES OF CONSOLIDATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Change Technology Partners, Inc. and its majority-owned and controlled subsidiaries from the date of acquisition. All significant intercompany transactions and balances have been eliminated in consolidation. Investments in less than majority-owned entities over which the Company has significant influence are accounted for using the equity method.

Since the Company was the only contributor of capital to a majority-owned subsidiary, eHotHouse, Inc., ("eHotHouse") and the minority interest holders had no obligation to provide additional capital, 100% of those losses were included in the Company's results for the period prior to the Company's acquisition of the outstanding minority interest in February, 2001. In May, 2001, eHotHouse merged with and into Change Technology Partners, Inc.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

REVENUE RECOGNITION

Revenues are recognized for fixed price arrangements in the period services are rendered using the percentage-of-completion method, provided the Company has the ability to produce reasonably dependable estimates, collection of the resulting receivable is probable and no significant obligations remain. The cumulative impact of any revision in estimates of the cost to complete and losses on projects in process are reflected in the period in which they become known. For the nine months ended September 30, 2002 the Company's revenues were recognized under the completed contract method of accounting as the Company does not have reasonably dependable estimates with respect to projects at Canned. Canned's projects are typically short term in nature, generally spanning less than 90 days.

Revenues are recognized for time-and-materials based arrangements in the period when the underlying services are rendered, provided collection of the resulting receivable is probable and no significant obligations remain.

The Company generally enters into short-term, project specific contracts with its clients who are generally billed in the same period in which services are rendered. If services are rendered in advance of billings, the Company records and presents the related amounts as unbilled revenue. If amounts are received in advance of services being performed, the amounts are recorded and presented as deferred revenues.

In November 2001, the Emerging Issues Task Force ("EITF") concluded that reimbursements for out-of-pocket-expenses incurred should be included in revenue in the income statement and subsequently issued EITF 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred" in January 2002. The Company adopted EITF 01-14 effective January 1, 2002 and has reclassified financial statements for prior periods to comply with the guidance in this EITF. Reimbursable expenses were de minimus for all periods presented.

COST OF REVENUES

Cost of revenues consists primarily of compensation of billable employees, travel, subcontractor costs, and other costs directly incurred in the delivery of services to clients. Billable employees are full time employees and subcontractors whose time are spent servicing client projects. Also included in cost of revenues in the statement of operations for the three and nine months ended September 30, 2001 is the amortization of certain purchased intangible assets, representing the value of customer relationships and workforces acquired. In connection with the adoption of SFAS 142 on January 1, 2002, acquired workforce was subsumed into goodwill, accordingly, and amortization of the remaining acquired workforce ceased.

SIGNIFICANT CUSTOMERS AND CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Company to credit risks consist primarily of cash and cash equivalents, notes receivable, and trade accounts receivable. Cash and cash equivalents consist

CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

of deposits, money market funds, and investments in short term "AAA" rated debt instruments. The Company performs ongoing credit evaluations, generally does not require collateral, and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends, and other information. To date, such losses have been within management's expectations. Notes receivable are generally collateralized, and bear a market rate of interest commensurate with the associated risks.

The Company derived revenues from certain key customers during the three and nine months ended September 30, 2002. Three customers accounted for 49%, 12% and 10% of total revenues during the nine months ended September 30, 2002 and four customers accounted for 28%, 23%, 22% and 14% of total revenues during the three months ended September 30, 2002. No other customer accounted for more than 10% of the Company's revenues during the three and nine months ended September 30, 2002 or 2001.

At September 30, 2002, three of these customers comprised 24%, 20% and 11% of accounts receivable. One other customer comprised 27% of total accounts receivable at September 30, 2002. At December 31, 2001, these same customers comprised 0%, 1% and 0% of total accounts receivable, and one other customer comprised 55% of accounts receivable at December 31, 2001.

BASIC AND DILUTED NET LOSS PER COMMON SHARE

Basic net loss per common share excludes the effect of potentially dilutive securities and is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss per share adjusts for the effect of convertible securities, warrants and other potentially dilutive financial instruments only in the periods in which such effect would have been dilutive.

The following securities were not included in the computation of diluted net loss per share because to do so would have had an antidilutive effect for the periods presented:

	September 30, 2002	December 31, 2001
	-----	-----
Stock Options.....	15,790,373	16,133,768
Warrants.....	25,781,252	41,250,000
Series A Convertible Preferred Stock.....	645	645

As a result, the basic and diluted net loss per share is equal for all periods presented.

PURCHASED INTANGIBLE ASSETS AND GOODWILL

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

Effective June 2001, the Company adopted Financial Accounting Standards Board Statement of Accounting Standards (SFAS) 141, "Business Combinations". Effective January 1, 2002, the Company adopted SFAS 142, "Goodwill and Intangible Assets" and SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 141 requires that acquisitions entered

10

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

into after June 30, 2001 be accounted for using the purchase method and establishes criteria to be used in determining whether acquired intangible assets are to be separated from goodwill. At January 1, 2002 the intangible assets consisted of goodwill and the subsumed workforce acquired in connection with the acquisition of Canned.

SFAS 142 sets forth the accounting for goodwill and intangible assets already recorded. Commencing January 1, 2002, goodwill is no longer being amortized into results of operations. Management conducted valuations of its reporting units in order to test goodwill for impairment by comparing the asset's fair value to the carrying value. This analysis did not indicate an impairment as of January 1, 2002.

The following table reflects the reconciliation of reported net loss and loss per share to amounts adjusted for the exclusion of goodwill amortization.

	Three months ended September 30,		Nine mont
	2002	2001	20
NET LOSS			
Reported loss	\$ (791)	\$ (14,200)	\$ (3
Add back: Goodwill amortization	--	933	
Adjusted net loss	\$ (791)	\$ (13,267)	\$ (3
 PER SHARE OF COMMON STOCK			
Basic and Diluted:			
Reported loss	\$ (0.00)	\$ (0.08)	(
Add back: Goodwill amortization	--	0.01	
Adjusted net loss	\$ (0.00)	\$ (0.07)	(

CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

(2) INVESTMENTS IN AND LOANS TO UNCONSOLIDATED SUBSIDIARIES

The following summarizes the Company's ownership interests in unconsolidated subsidiaries accounted for under the equity method or cost method of accounting (in thousands):

	September 30, 2002		Carrying Value	Cost Basis	Carrying Value
	Carrying Value	Cost Basis			
Equity method investments:					
Broadstream.com Inc. ("Broadstream").....	\$ --	\$ 7,100	\$		
NetPro Holdings, Inc. ("NetPro").....	--	400			
InSys LLC ("InSys").....	135	323			3
Cost method investments:					
Livesky, Inc. ("Livesky").....	--	125			1
Excelsior Radio Networks, Inc. ("Excelsior").....	250	250			2
Alacra, Inc. ("Alacra").....	78	78			
Total investments.....	\$ 463	\$ 8,276	\$		7

INVESTMENTS IN BROADSTREAM AND NETPRO

In June 2000, the Company purchased 7,626,165 shares of Series A Convertible Redeemable Preferred Stock ("Series A") of Broadstream, Inc. (d/b/a Network Prophecy) ("Broadstream"), representing an approximately 30% equity interest (calculated on an as-if-converted basis) and approximately 47% voting interest, in exchange for \$6,500.

Broadstream is a streaming media management services company that provides software to measure, manage and monitor delivery of streaming media content and data. The investment in Broadstream is being accounted for under the equity method. Based upon the capital structure of, and the equity participation in, the equity investee, the Company has assumed conversion of Series A shares in computing its share of losses of this investee.

In May 2001, Broadstream completed a recapitalization whereby all of the holders of Series A shares exchanged their Series A shares for shares of Series A-1

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

Convertible Redeemable Preferred Stock ("Series A-1"). The recapitalization modified the conversion ratio, policies regarding dividends and voting rights for Series A-1 holders. No additional consideration was paid by the Company or any other Series A-1 shareholder in connection with this transaction. As a result of the recapitalization the voting interest of common shareholders was reduced from 31% to 13%.

Also in May 2001, in connection with the recapitalization, the Company transferred 1,191,569 Series A-1 shares to Adelson Investors, LLC ("Adelson"), another shareholder of Broadstream, as payment for certain financing-related services performed by Adelson on behalf of Broadstream. This transfer has been accounted for as a contribution by the Company of such

12

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

shares to Broadstream in exchange for no consideration. Subsequent to the recapitalization and non-reciprocal share transfer, the Company owned 6,434,596 shares of Series A-1 Convertible Redeemable Preferred Stock of Broadstream, representing an approximately 43% equity interest (calculated on an as-if-converted basis) and a 49% voting interest.

On August 15, 2001 the Company purchased a secured convertible promissory note from Broadstream in exchange for \$600 in connection with an aggregate \$1,600 bridge loan financing consummated by Broadstream. The aggregate bridge loan financing was secured by all of Broadstream's assets. The note also contained certain conversion provisions in the event Broadstream were to close a new round of financing or enter into certain transactions.

On November 30, 2001 the Company assigned its Broadstream promissory note to a newly formed entity, NetPro Holdings Inc. ("NetPro") in exchange for 13,674,753 shares of NetPro Series A-1 Convertible Redeemable Participating Preferred Stock. On November 30, 2001 as a result of the application of the equity method, the net book value of the note approximated zero and no gain or loss was recorded as a result of this exchange. Concurrent with this transaction, NetPro foreclosed on the note and elected to take possession of all of Broadstream's assets in full satisfaction of the notes.

On December 15, 2001, the Company purchased 1,585,479 shares of NetPro Series B-1 Convertible Redeemable Participating Preferred Stock in exchange for \$200 in connection with a larger ongoing financing arrangement.

As of December 31, 2001 the Company's interest in NetPro represented approximately 38% of NetPro outstanding equity, and was being accounted for under the equity method of accounting. The Company's proportionate share NetPro's net losses totaled \$167 from the date of investment through December 31, 2001.

On January 10, 2002, the Company invested an additional \$100 in NetPro Series B-1 stock, and on March 7, 2002 the Company invested a final \$100 in NetPro Series B-1 stock. On March 14, 2002, the board of directors of NetPro voted to suspend all of NetPro's business operations and immediately terminate substantially all of its employees due to NetPro's loss of significant clients and associated revenues. The Company has no obligation to provide additional

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

funding to NetPro. As a result of this action, the Company evaluated the recoverability of this investment by comparison of its carrying value relative to estimated future cash flows. As a result of this analysis, the Company recorded an impairment charge to reduce the remaining investment balance to \$0. The Company's proportionate share of net loss, and impairment charge, for the three and nine months ended September 30, 2002, totaling \$0 and \$233, respectively, is included in equity in losses and impairment of investments in unconsolidated affiliates in the accompanying statement of operations.

INVESTMENT IN AND NOTE RECEIVABLE FROM EXCELSIOR RADIO NETWORKS

On August 28, 2001 the Company purchased a promissory note and warrant from Excelsior Radio Networks, Inc. (d/b/a Excelsior Capital, Inc.) ("Excelsior") for \$2,250. Excelsior, a

13

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

subsidiary of Franklin Capital Corporation ("Franklin"), concurrently purchased certain assets from affiliates of Winstar Communications, Inc., which produces, syndicates and distributes radio programs and services. Excelsior had substantially no operations prior to this transaction. The note earns interest at a rate of 8.5% per annum, matured on September 30, 2002 and is secured by all of Excelsior's assets.

The warrant to purchase 482,955 shares of Excelsior's common stock at an exercise price of \$1.125 per share had an allocated fair value of approximately \$112 and represented 11% of Excelsior's fully diluted capital stock as of the date of issuance. The warrant is included in other assets in the accompanying balance sheet.

The allocated fair value of the note receivable, totaling \$2,138, is included in notes receivable in the accompanying balance sheet. Also included in notes receivable is the periodic accretion of the note discount, totaling \$76 for the nine months ended September 30, 2002, which is credited to interest income in the accompanying statement of operations. On October 1, 2002 the Company received full payment of interest and principal on this note receivable.

On December 4, 2001 the Company purchased from Franklin 250,000 shares of common stock, or an approximate 10% equity interest of Excelsior, for \$250. This investment is being accounted for under the cost method of accounting.

On April 3, 2002, the Company loaned to Excelsior an aggregate principal amount of approximately \$4,708 for the purpose of funding a portion of the initial cash purchase price of Excelsior's acquisition of certain assets of Dial Communications Group, LLC and Dial Communications Group, Inc. The note earns interest at a rate of 12% per annum, matures on April 3, 2003 and is secured by substantially all of the assets of Excelsior pursuant to a Security Agreement which was attached to the Company's Form 8-K filed with the Securities and Exchange Commission on April 4, 2002.

On December 4, 2001 the Company initiated a business combination whereby the Company planned to acquire all issued and outstanding common stock of Franklin

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

in a stock-for-stock exchange. On July 1, 2002 the Company received a notice of termination from Franklin terminating the proposed merger.

The \$4,708 note matures in April, 2003. From the date of issuance through September 30, 2002 quarterly interest payments of \$136 and \$142 in the second and third quarter, respectively, have been received in accordance with the terms of the note.

INVESTMENT IN LIVESKY

On December 21, 2000, the Company purchased 625,001 shares of Series A Convertible preferred stock, representing an approximate 2% equity interest of LiveSky Solutions, Inc. ("LiveSky") in exchange for \$125. LiveSky is a developer of wireless technology, including mobile business strategy and assessment as well as mobile application design and development. This investment is being accounted for under the cost method of accounting.

14

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

In June 2002, the Company received notice that the board of directors of LiveSky had voted to liquidate LiveSky in the context of a Chapter 7 bankruptcy case. The Company has no obligation to provide additional funding to LiveSky. As a result of this action, the Company evaluated the recoverability of this investment by comparison of its carrying value relative to future cash flows. As a result of this analysis, the Company recorded an impairment charge in the second quarter to reduce the remaining balance to \$0. The impairment charge, totaling \$125 for the nine months ended September 30, 2002, is included in equity in losses and impairment of investments in unconsolidated affiliates in the accompanying statement of operations.

INVESTMENT IN ALACRA

On January 31, 2002, the Company purchased 38,840 shares of common stock, representing less than 1% equity interest, of Alacra, Inc. ("Alacra") in exchange for \$78. The Company has no obligation to provide additional funding to Alacra. Alacra provides a diverse portfolio of online and offline services that allow users to quickly find, analyze, package and present mission-critical business information. This investment is being accounted for under the cost method of accounting.

(3) ACQUISITIONS AND DIVESTITURES

ACQUISITION OF EHOTHOUSE, INC.

In February 2001, the Company acquired the remaining outstanding minority interest of its subsidiary, eHotHouse, for 2,155,519 shares of the Company's common stock valued at \$2,700 and approximately \$218 in cash. The acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the pro rata portion of tangible and intangible assets acquired on the basis of their respective fair values on the date of acquisition. Of the total purchase price, approximately \$2,900 was allocated to identified intangible assets, including the assembled workforce. The fair value

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

of acquired intangible assets was capitalized and was being amortized over the estimated useful life of three years. Related amortization for the nine months ended September 30, 2001 totaled \$648.

Also in February 2001, the Company acquired the former Chief Executive Officer's (of the Company and eHotHouse) shares of eHotHouse common stock in exchange for approximately \$182 in cash and 3,144,494 shares of Company common stock. This transaction was accounted for as the settlement of a prior stock award and, accordingly, the Company recognized \$2,600 in related compensation expense, representing the excess of the fair value of the cash and Company shares issued as settlement over the fair value of the eHotHouse shares on the original date of grant. Of this amount, \$2,500, representing the stock portion of the settlement, was included in equity-based compensation in the statement of operations for the nine months ended September 30, 2001.

Subsequent to the acquisition of the remaining outstanding minority interest, eHotHouse was merged with and into the Company.

15

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

In July 2001, the Board of Directors terminated the employment of the Company's President and Chief Executive Officer. The former executive had an employment agreement dated August 21, 2000 that provided for severance benefits. The Company has paid, and will continue to pay, the former executive the severance he is entitled to under his employment agreement. The related obligation totaled \$232 at September 30, 2002 and is included in accrued expenses in the accompanying balance sheet.

Additionally, the Company recorded an impairment loss reflecting the impact of the executive's termination upon the carrying value of certain acquired intangible assets, and reversed certain unamortized deferred compensation related to unvested options that were forfeited in connection with the termination. The impairment loss reduced the remaining carrying value of the related intangibles to \$0 as of December 31, 2001.

ACQUISITION AND DIVESTITURE OF INSYS TECHNOLOGIES, LLC

On October 18, 2000, eHotHouse acquired substantially all of the operating assets and assumed certain liabilities of InSys Technology, Inc. ("InSys"), a provider of systems integration services. The acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the tangible and identified intangible assets acquired on the basis of their respective fair values on the date of acquisition. The results of operations of InSys and the estimated fair value of the assets acquired and liabilities assumed are included in the Company's consolidated financial statements from the date of acquisition. The fair value of the intangible assets was determined based upon a combination of methods, including the income approach for the customer list, and the replacement cost approach for the value of the assembled workforce.

The total purchase price of \$867 consisted of cash, including acquisition related expenses consisting primarily of payments for legal and financial

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

advisory services. Of the total purchase price, approximately \$700 was allocated to net tangible assets and the remainder was allocated to identified intangible assets, including the customer list and assembled workforce. The fair value of acquired intangible assets was capitalized and was being amortized over their estimated useful lives of three years. Related amortization for the nine months ended September 30, 2001 was \$39.

During the year ended December 31, 2001, as a result of the aforementioned terminations, coupled with the historical, current and projected operating and cash flow losses, the Company evaluated the recoverability of its acquired intangible assets by comparison of the carrying value relative to future cash flows. As a result, the Company recorded impairment charges which reduced the remaining carrying value of the related intangibles to \$0 as of December 31, 2001.

On November 8, 2001 the Company sold a 51% voting interest in InSys to a certain member of the management team in exchange for \$50 and concurrently forgave approximately \$400 of advances to InSys. The Company has no obligation to provide additional funding to InSys.

16

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

Concurrently the Company loaned InSys \$100 evidenced by a promissory note. The note bears interest at a rate equal to the London Interbank offer rate plus 2%, until the principal amount of the note is paid in full. InSys is obligated to pay, on an annual basis, at a minimum, 50% of the excess of its annual earnings before taxes.

The Company's retained equity interest and note receivable, net of the Company's pro rata share of InSys' net losses absorbed during the period from November 8, 2001 to December 31, 2001, totaled \$312 which is included investments in and loans to unconsolidated subsidiaries on the accompanying balance sheet as of December 31, 2001. The Company's pro rata share of InSys' net loss for the three and nine months ended September 30, 2002 totaled \$22 and \$177, respectively, which is included in equity in losses and impairment of investments in unconsolidated affiliates in the accompanying statement of operations.

ACQUISITION AND DIVESTITURE OF RAND INTERACTIVE CORPORATION

On November 30, 2000, eHotHouse acquired all of the issued and outstanding common stock of RAND Interactive Corporation ("RAND"), a leading provider of media and technical services. The acquisition was accounted for using the purchase method of accounting and, accordingly, the total consideration was allocated to the tangible and intangible net assets acquired and liabilities assumed on the basis of their respective fair values on the date of acquisition. The results of operations of RAND and the estimated fair value of the assets acquired and liabilities assumed are included in the Company's consolidated financial statements from the date of acquisition.

The total purchase price of approximately \$1,400 consisted of \$700 of eHotHouse common stock (1,020,000 shares), \$700 in cash including other acquisition related expenses, consisting primarily of payments for legal and financial

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

advisory services. Of the total purchase price, \$47 was allocated to net tangible liabilities assumed, and the remainder was allocated to identified intangible assets, including customer lists and the assembled workforce. The fair value of the identified intangible assets was determined using the income approach for the customer list, and the replacement cost approach for the value of the assembled workforce. The purchased intangible assets were being amortized over their estimated useful lives of three years. Related amortization for the nine months ended September 30, 2001 totaled \$357.

As a result of the aforementioned terminations, coupled with the historical and projected operating and cash flow losses, the Company evaluated the recoverability of its acquired intangible assets by comparison of the carrying value relative to future cash flows. As a result, the Company recorded impairment charges that reduced the remaining carrying value of the related intangibles to \$0 as of December 31, 2001.

On November 2, 2001 the Company sold all issued and outstanding shares of RAND to certain members of management in exchange for 375,039 shares of the Company's common stock, and a warrant to purchase such amount of shares of common stock that shall equal, at the time of exercise, 30% of the issued and outstanding shares of RAND common stock on a fully diluted basis. Such warrants have a stated exercise price of \$1.00 in the aggregate, expire on November

17

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

3, 2013, and are contingently exercisable upon the occurrence of certain prospective events, as defined.

ACQUISITION OF IGUANA STUDIOS, INC.

In March 2001, the Company acquired Iguana Studios, Inc. ("Iguana"), a New York City-based interactive agency, for approximately \$5,771, including \$2,786 in cash, 2,700,000 shares of the Company's common stock valued at \$1,990, and replacement options to purchase 1,681,888 shares of Company common stock, which vested upon the change in control, valued at approximately \$995.

The business combination was accounted for using the purchase method of accounting and, accordingly, the total consideration was allocated to the tangible and intangible assets acquired and liabilities assumed on the basis of their respective fair values on the date of acquisition. The results of operations of Iguana, and the estimated fair value of the assets acquired and liabilities assumed are included in the Company's consolidated financial statements from the date of acquisition. Of the total purchase price, approximately \$1,815 was allocated to the net tangible assets acquired, \$1,300 was allocated to identified intangible assets, including customer base and assembled workforce, and the remainder was allocated to goodwill. The fair value of the identified intangible assets was determined using an income approach for the customer base, and the replacement cost approach for the assembled workforce. The purchased intangible assets and goodwill were being amortized over their estimated useful lives of three years. Related amortization for the nine months ended September 30, 2001 totaled \$936.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

As a result of the aforementioned terminations, coupled with the historical, current and projected operating and cash flow losses the Company evaluated the recoverability of its acquired intangible assets and goodwill by comparison of the carrying value relative to future cash flows. As a result, the Company recorded impairment charges that reduced the remaining carrying value of the related intangibles to \$0 as of December 31, 2001.

Also in connection with the acquisition of Iguana, 2,300,000 shares of the Company's common stock were placed in escrow (the "Escrow Shares"). The related contingency period expired in July 2002, and the fair value of such shares was included in the aggregate purchase price. As of December 31, 2001 all employees of Iguana had been terminated, and the subsidiary's operating activities had ceased. The remaining net book value of Iguana intangibles was \$0. Accordingly, the Company has recorded additional impairment charges totaling \$69 representing the fair value of such shares.

ACQUISITION OF PAPKE-TEXTOR, INC.

In June 2001, the Company acquired Papke-Textor, Inc. d/b/a Canned Interactive ("Canned"), a Los Angeles-based media and entertainment interactive agency, for approximately \$1,100 in cash, including acquisition costs, and 6,436,552 shares of the Company's common stock valued at approximately \$1,000.

18

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

The business combination was accounted for using the purchase method of accounting and, accordingly, the total consideration was allocated to the tangible and intangible assets acquired and liabilities assumed on the basis of their respective fair values on the date of acquisition. The results of operations of Canned, and the estimated fair value of the assets acquired and liabilities assumed are included in the Company's consolidated financial statements from the date of acquisition. Of the total purchase price, approximately \$104 was allocated to the net tangible liabilities assumed, \$2,177 was allocated to identified intangible assets, primarily assembled workforce, and to goodwill. The fair value of the identified intangible assets was determined using the replacement cost approach for the assembled workforce. The purchased intangible assets and goodwill were being amortized over their estimated useful lives of three years. On January 1, 2002, in connection with the Company's adoption of SFAS 142, the value ascribed to the acquired workforce was subsumed into goodwill, and amortization of these assets ceased. The remaining unamortized amount, totaling \$1,568 at September 30, 2002 is included in goodwill in the accompanying balance sheet.

Also in connection with the acquisition of Canned, \$200 in cash and 715,172 shares of the Company's common stock were placed in escrow for a period ending December 12, 2002. The then fair value of this contingent consideration will be included in the aggregate purchase price, if and when released from escrow, pending the outcome of the contingency, as defined.

(4) NOTES RECEIVABLE

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

In April 2001, the Company loaned two consultants an aggregate of \$500. The full recourse promissory notes, with initial principal amounts of \$350 and \$150, respectively, accrue interest at the rate of 7.25% per annum. Payments are due in various installments of principal plus accrued interest commencing on April 25, 2002 and continuing annually thereafter through April 25, 2006. In April 2002, the Company received the first such installment, totaling \$60.

(5) COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases its facilities under operating lease agreements. The following are the future minimum lease payments under non-cancelable leases as of September 30, 2002:

	Period Ended December 31, -----	Operating -----	Capital -----
2002.....		252	35
2003.....		850	83
2004.....		184	--
2005.....		46	--
		-----	-----
Total Lease Obligation.....		\$ 1,332	118
Amount Representing Interest.....			(4)

			114
Current Portion.....			(92)

Long Term Portion.....			22

19

CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Interim Financial Statements
September 30, 2002
(in thousands, except share data)

Total minimum lease payments have not been reduced for future minimum sublease rentals totaling approximately \$461. As a result of the Company's divestiture of certain operations, employee terminations and terminated business combination, the Company has evaluated its numerous alternatives with respect to its contractual obligations concerning leased facilities. As of June 30, 2002, the Company determined that certain facilities have no substantive future use or benefit to the Company. The Company accrued the remaining costs in the second quarter, net of sublease income, relating to these leases. At September 30, 2002 \$294 of this amount remained.

LEGAL PROCEEDINGS

The Company is involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operation or liquidity.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

(6) STOCKHOLDER'S EQUITY

In April, 2002 the Company cancelled 15,468,748 outstanding warrants with a weighted average exercise price of \$0.85 in exchange for no consideration.

In August, 2002 the Company's shareholders approved the grant to the Chief Executive Officer of an option to purchase 6,000,000 shares of the Company's Common Stock.

(7) RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2002, the Company incurred legal fees in connection with certain transactions and other matters in the normal course of business. A portion of these services were provided by a firm of which a member of the Board of Directors of the Company is a partner. Fees incurred by this firm totaled approximately \$91 and \$329 in the three and nine months ended September 30, 2002, respectively.

Additionally, during the six months ended June 30, 2002, the Company incurred management and investment advisory service fees in connection with identifying, evaluating, negotiating, and managing investment opportunities for the Company. These services were provided by a firm of which the current President and Chief Executive Officer of the Company was previously affiliated. Fees incurred by this firm totaled \$135 the six months ended June 30, 2002. Beginning in July 2002, the Company ceased making payments to the firm and instead retained the services of two employees of this firm, in a consulting capacity, to provide the described services. Fees paid to these individuals totaled \$45 from July 2002 to September 30, 2002. Additionally, this firm occupies a portion of the Company's office space in Connecticut, for which it pays rent at fair market value. Such payments to the Company totaled \$134 during the nine months ended September 30, 2002. Furthermore, the firm was indebted to the Company in the amount of \$185 at September 30, 2002 for its pro rata share of certain leasehold improvements and rental payments due, which are reflected in the related party receivable in the accompanying balance sheet.

20

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the fiscal year ended December 31, 2001. Certain statements contained within this discussion constitute forward-looking statements. See "Special Note Regarding Forward Looking Statements."

ACCOUNTING POLICIES

The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States requires the Company 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. The Company's estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

The Company provides services under time-and-material or fixed-price contracts which are generally short term. Under time-and-material and fixed-price contracts costs are generally incurred in proportion with contracted billing schedules and revenue is recognized when the services are rendered based on the percentage of costs incurred to date to total estimated project costs. Cumulative revenues recognized may be less or greater than cumulative costs and profits billed at any point in time during a contract's term. The resulting difference is recognized as unbilled or deferred revenue.

Any estimation process, including that used in preparing contract accounting models, involves inherent risk. The Company reduces the inherent risk relating to revenue and cost estimates in percentage-of-completion models through corporate policy, approval and monitoring processes. Risks relating to service delivery, productivity and other factors are considered in the estimation process. For all client contracts, provisions for estimated losses on individual contracts are made in the period in which the loss first becomes apparent.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make payments. If the financial condition of the Company's customers deteriorate, resulting in the customers' inability to make payments, additional allowances will be required. Additionally, the Company assesses the need for provisions for estimated uncollectible amounts with respect to its loans receivable resulting from the inability of an issuer to make payments when they become due. The Company bases this estimate on the financial condition of the issuer, trends in their results of operations or other changes in circumstances. If the financial condition of an issuer deteriorates, resulting in their inability to fulfill their obligation under the promissory note, additional allowances will be required.

The Company has reduced its deferred tax assets to an amount that the Company believes is more likely than not to be realized, which was \$0 at December 31, 2001 and September 30, 2002. In so doing, the Company has estimated future taxable losses in determining the valuation allowance. In the event that actual results differ from these estimates or these estimates are

21

adjusted in future periods, the Company may need to modify its valuation allowance which could materially affect its financial position and results of operations.

OVERVIEW AND RECENT DEVELOPMENTS

Prior to commencement of the operational divestiture described in the Company's Form 10-K for the year ended December 31, 2001, the Company was a provider of a broad range of professional consulting services, including e-services and technology strategy, online branding, web architecture and design systems integration, system architecture and outsourcing. The Company has served clients throughout the United States with offices in New York, Connecticut, Maryland, California and New Jersey.

On December 4, 2001 the Company entered into an agreement and plan of merger with Franklin Capital Corporation, a Delaware corporation. On July 1, 2002 the Company received a notice of termination from Franklin terminating the proposed merger.

The Company made two investments in 2001 and one in the first quarter of 2002 in Excelsior Radio Networks, Inc. (f/k/a eCom Capital, Inc.), a subsidiary of Franklin Capital, which produces, syndicates and distributes radio programs and

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

related services. The Company purchased a promissory note and warrant for \$2,250,000 from Excelsior in August 2001 and in December 2001 purchased 250,000 common shares of Excelsior from Franklin Capital for \$250,000. In April 2002 the Company purchased an additional promissory note from Excelsior for \$4,708,200 in conjunction with the purchase by Excelsior of Dial Communication Group Inc. and Dial Communications Group LLC. The \$2,250,000 promissory note was paid in full, together with related accrued interest, on October 1, 2002. The \$4,708,200 note matures in April 2003. From the date of issuance through September 30, 2002 quarterly interest payments of \$136,000 and \$142,000 in the second and third quarter, respectively, have been received in accordance with the terms of this note. The note is secured by substantially all of the assets of Excelsior.

On September 30, 2002, the Board of Directors adopted a plan of liquidation and dissolution in order to maximize shareholder value. In reaching its decision, the Board of Directors considered principally the provisions of the Investment Company Act of 1940, which would have required the Company to register as an "investment company" in the absence of the adoption of the plan of liquidation. The plan of liquidation and dissolution anticipates the continuation of the Company's current business activities pending an orderly wind down of its operations. Additionally, the plan provides that in the event the Board of Directors determines that it would be in the best interests of the Company and its stockholders to amend, modify or abandon the plan of liquidation and dissolution, it may do so notwithstanding stockholder approval of the plan. The Company intends to seek stockholder approval of the plan of liquidation and dissolution at its next annual meeting, expected to be held in the spring of 2003. Subject to approval of the plan by holders of a majority of the Company's outstanding shares, the Company plans to sell its assets, discharge its liabilities and distribute the net proceeds to its stockholders.

OTHER SIGNIFICANT DEVELOPMENTS

During the year ended December 31, 2001, in response to continued unfavorable market conditions for its services, the Company embarked on a review of all operations with the goal of

22

formulating a course of action to minimize near-term losses, capital expenditures and reduce cash outflows. As an initial course of action, the Company terminated the employment of approximately 90% of its existing workforce.

As a result of these terminations, coupled with historical, current and projected operating and cash flow losses, the Company evaluated the recoverability of its acquired intangible assets and goodwill by comparison of the carrying value relative to future cash flows. As a result, the Company recorded impairment charges in the third quarter of 2001, totaling \$7,263,000, which reduced the carrying value of certain intangibles to \$0 as of December 31, 2001.

Also as a result of these actions, the Company also incurred severance charges in the third quarter of 2001 totaling \$1,326,000. As of September 30, 2002, \$1,094,000 of this amount has been paid.

OVERVIEW OF HISTORICAL OPERATIONS

Canned Interactive is currently the Company's sole revenue generating subsidiary. Canned is based in Los Angeles, California and designs and produces interactive media such as digital video discs (DVD) and web sites, primarily for entertainment, consumer goods, sports and technology companies.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

Most theatrical films, including new and library releases, are now released in DVD format. Canned designs interactive content for those titles, enriching the viewer experience and creating value for Canned's clients. Canned also uses its design and technology skills to create and enhance web sites with interactive and streaming content.

The Company derives its revenues from services performed under one of two pricing arrangements: time-and-materials and fixed price. The services performed under either of these arrangements are substantially identical.

Revenues are recognized for fixed price arrangements in the period services are rendered using the percentage-of-completion method, based on the percentage of costs incurred to date to total estimated projects costs, provided the Company has the ability to produce reasonably dependable estimates, collection of the resulting receivable is probable and no significant obligations remain. The cumulative impact of any revision in estimates of the cost to complete and losses on projects in process are reflected in the period in which they become known. For the nine months ended September 30, 2002 the Company's revenues were recognized under the completed contract method of accounting as the Company does not have reasonably dependable estimates with respect to projects at Canned. Canned's projects are typically short term in nature, generally spanning less than 90 days.

Revenues are recognized for time-and-materials based arrangements in the period when the underlying services are rendered, provided collection of the resulting receivable is probable and no significant obligations remain.

Provisions for estimated project specific losses on both types of contracts are made during the period in which such losses become probable and can be estimated. To date, such losses have not been significant. The Company reports revenue net of reimbursable expenses.

23

Agreements entered into in connection with time-and-materials projects are generally terminable by the client upon 30-days' prior written notice, and clients are required to pay the Company for all time, materials and expenses incurred by the Company through the effective date of termination. Agreements entered into in connection with fixed-fee projects are generally terminable by the client upon payment for work performed and the next progress payment due. If clients terminate existing agreements or if the Company is unable to enter into new agreements, the Company's business, financial condition and results of operations could be materially and adversely affected. In addition, because a significant portion of the Company's expenses is fixed, a variation in the number of client engagements can cause significant variations in operating results from quarter to quarter.

The Company's projects vary in size and source. Therefore, a client that accounts for a significant portion of the Company's revenues in one period may not generate a similar amount of revenue in subsequent periods. However, there is a risk that the source of the Company's revenues may be generated from a small number of clients and these clients may not retain the Company in the future. Any cancellation, deferral or significant reduction in work performed for these principal clients or a significant number of smaller clients could have a material adverse affect on the Company's business, financial condition and results of operations.

The Company's costs consist primarily of compensation and related costs of personnel dedicated to customer assignments. Project personnel costs also

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

include fees paid to subcontractors for work performed in connection with projects and non-reimbursed travel expenses.

The Company's selling, general and administrative costs consist primarily of compensation and related costs of the management and administrative functions, including finance and accounting, marketing, human resources and internal information technology, the costs of the Company's facilities, and other general corporate expenses.

The Company's equity based compensation expense is comprised of amortization of the deferred compensation associated with the grant of stock options to the Board of Directors and President and Chief Executive Officer. Such cost is measured as the difference between the exercise price of options granted and the fair market value of the underlying stock on the date of measurement, and is being recognized as expense over the vesting period of the options. Also included in the equity based compensation during the nine months ended September 30, 2001 is the cost associated with 3,144,494 shares of Common Stock issued as partial consideration in exchange for the former President and Chief Executive Officer's shares of eHotHouse, a subsidiary. Such cost is measured as the difference between the fair value of the shares issued over that of the eHotHouse shares on the original date of grant. The Company incurred approximately \$394,000 and \$2,794,000 in equity based compensation expense during the nine months ended September 30, 2002 and 2001, respectively.

ACQUISITIONS AND DIVESTITURES

The Company evaluates acquisitions based on numerous quantitative and qualitative factors. Quantitative factors include historical and projected revenues and profitability, geographic coverage and backlog of projects under contract. Qualitative factors include strategic and cultural fit, management skills, customer relationships and technical proficiency.

24

EHOTHOUSE. On February 21, 2001, the Company acquired the remaining outstanding interests in eHotHouse, and merged eHotHouse with a newly formed, wholly owned subsidiary of the Company. The Company acquired this minority interest for approximately 2,200,000 shares of Common Stock, valued at approximately \$2,700,000, and \$200,000 in cash. The acquisition was accounted for using the purchase method of accounting. On May 16, 2001, eHotHouse merged with and into the Company.

As a result of the aforementioned terminations, coupled with the historical, current and projected operating and cash flow losses, the Company evaluated recoverability of its acquired intangible assets acquired from eHotHouse by comparison of the carrying value relative to future cash flows. As a result, the Company recorded impairment charges, which reduced the carrying value of the eHotHouse intangibles to \$0 as of December 31, 2001.

INSYS. On October 18, 2000, eHotHouse acquired substantially all of the operating assets and assumed certain liabilities of InSys, a provider of systems integration services, in exchange for \$900,000 in cash including acquisition costs. The business combination was accounted for using the purchase method.

During the year ended December 31, 2001 as a result of the aforementioned terminations, coupled with the historical, current and projected operating and cash flow losses, the Company evaluated the recoverability of its acquired intangible assets by comparison of the carrying value relative to future cash flows. As a result, the Company recorded impairment charges, which reduced the carrying value of the InSys intangibles to \$0 as of December 31,

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

2001.

On November 8, 2001 the Company sold a 51% voting interest in InSys to a member of its management team in exchange for \$50,000 and concurrently forgave approximately \$400,000 of advances to InSys. In addition, the Company loaned InSys \$100,000 evidenced by a promissory note. This note bears interest at a rate equal to the London Interbank Offer Rate plus 2%.

RAND INTERACTIVE CORPORATION. On November 30, 2000, eHotHouse acquired all of the issued and outstanding common stock of RAND Interactive Corporation, a provider of media and technical services in exchange for \$700,000 of eHotHouse common stock and \$700,000 in cash including acquisition costs. The business combination was accounted for using the purchase method of accounting.

As a result of the aforementioned terminations, coupled with the historical, current and projected operating and cash flow losses, the Company evaluated the recoverability of its acquired intangible assets by comparison of the carrying value relative to future cash flows. As a result, the Company recorded impairment charges, which reduced the carrying value of the RAND intangibles to \$0 as of December 31, 2001.

On November 2, 2001 the Company sold all of the issued and outstanding shares of RAND to a member of its management team in exchange for 375,039 shares of Common Stock, and a warrant to purchase such amount of shares of RAND common stock that equals, at the time of exercise, 30% of the issued and outstanding shares of RAND common stock on a fully diluted basis. The warrant has an aggregate exercise price of \$1.00, is exercisable upon the occurrence of certain events and expires on November 3, 2013.

25

IGUANA. On March 1, 2001, the Company acquired all outstanding shares of Iguana Studios, Inc., a leading provider of media and technical services, in exchange for approximately \$2,800,000 in cash, including acquisition costs, 2,700,000 shares of Common Stock, valued at approximately \$2,000,000, and replacement options to purchase 1,681,888 shares of Common Stock valued at approximately \$1,000,000. The acquisition was accounted for using the purchase method of accounting.

As a result of the terminations referred to above, coupled with the historical, current and projected operating and cash flow losses, the Company evaluated recoverability of its acquired intangible assets and goodwill acquired from Iguana by comparison of the carrying value relative to future cash flows. As a result, the Company recorded impairment charges that reduced the carrying value of the Iguana intangibles to \$0 as of December 31, 2001.

Also in connection with the acquisition of Iguana, 2,300,000 shares of the Company's common stock were placed in escrow (the "Escrow Shares"). The related contingency period expired in July 2002, and the fair value of such shares was included in the aggregate purchase price. As of December 31, 2001 all employees of Iguana had been terminated, and the subsidiary's operating activities had ceased. The remaining net book value of Iguana intangibles was \$0. Accordingly, the Company has recorded additional impairment charges totaling \$69,000 representing the fair value of such shares.

CANNED. On June 12, 2001, the Company acquired Papke-Textor, Inc. d/b/a Canned Interactive, a Los Angeles based media and entertainment interactive agency, for approximately \$1,100,000 in cash, including acquisition costs, and 6,436,552 shares of Common Stock, valued at approximately \$1,000,000. The business combination was accounted for using the purchase method of accounting.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

BROADSTREAM AND NETPRO. In May 2001, Broadstream completed a recapitalization whereby the holders of Series A Convertible Redeemable Preferred Stock exchanged their Series A shares for shares of Series A-1 Convertible Redeemable Preferred Stock. The recapitalization modified the conversion ratio, policies regarding dividends and voting rights for Series A-1 holders. No additional consideration was paid by the Company or any other preferred shareholder in connection with this transaction. As a result of the recapitalization the voting interest of common shareholders was reduced from 31% to 13%.

Also in May 2001, in connection with the recapitalization, the Company transferred 1,191,569 Series A-1 Convertible Redeemable Preferred shares to Adelson Investors, LLC, another shareholder of Broadstream. This transfer is accounted for as a contribution by the Company of such shares to Broadstream in exchange for no consideration. Subsequent to the recapitalization, and non-reciprocal share transfer, the Company owned 6,434,596 shares of Series A-1 convertible redeemable preferred stock of Broadstream, representing an approximately 43% equity interest (calculated on an as-if-converted basis) and 49% voting interest.

On August 15, 2001 the Company purchased a secured convertible promissory note from Broadstream in exchange for \$600,000 in connection with an aggregate \$1,600,000 bridge loan financing consummated by Broadstream. The aggregate bridge loan financing was secured by all of Broadstream's assets. The note also contained certain conversion provisions in the event Broadstream closed a new round of financing or entered into a change of control transaction.

26

On November 30, 2001 the Company assigned its note to a newly formed entity, NetPro Holdings Inc. in exchange for 13,674,753 shares of NetPro Series A-1 convertible redeemable participating preferred stock. On November 30, 2001 as a result of the application of the equity method, the net book value of the note approximated zero. No gain or loss was recorded as a result of this exchange. Concurrent with this transaction, NetPro foreclosed on the note and elected to take possession of all of Broadstream's assets in full satisfaction of the notes. Broadstream remains in existence but is not conducting any business.

On December 24, 2001, the Company purchased 1,585,479 shares of NetPro Series B-1 convertible redeemable participating preferred stock in exchange for \$200,000 in connection with a larger ongoing financing effort by NetPro. On January 10, 2002, the Company invested an additional \$100,000 in NetPro Series B-1 stock, and on March 7, 2002 the Company invested a final \$100,000 in NetPro Series B-1 stock. On March 14, 2002, the board of directors of NetPro voted to suspend all of the company's business operations and immediately terminate substantially all of its employees due to NetPro's loss of significant clients and associated revenues

RESULTS OF OPERATIONS

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2002

REVENUES. Revenues decreased from \$1,740,000 in the three months ended September 30, 2001 to \$511,000 in the three months ended September 30, 2002 and from \$5,144,000 in the nine months ended September 30, 2001 to \$1,844,000 in the nine months ended September 30, 2002. This decrease is a result of the Company's divestitures of operating businesses.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

COST OF REVENUES. Cost of revenues consists principally of costs directly incurred in the delivery of services to clients, primarily consisting of compensation of billable employees. Billable employees are full time employees and sub-contractors whose time spent working on client projects is charged to that client at agreed-upon rates. Billable employees are our primary source of revenue. Such costs decreased from \$2,527,000 in the three months ended September 30, 2001 to \$301,000 in the three months ended September 30, 2002, or 59% of revenues and from \$6,891,000 in the nine months ended September 30, 2001 to \$931,000 in the nine months ended September 30, 2002, or 50% of revenues. The decrease is a result of the divestitures of InSys and RAND, and the downsizing of Iguana's operations.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses consist primarily of compensation and related benefits, professional services fees, facilities costs, and advertising and promotional costs. Selling, general and administrative expenses decreased from \$2,967,000 in the three months ended September 30, 2001 to \$1,068,000 in the three months ended September 30, 2002 and from \$10,788,000 in the nine months ended September 30, 2001 to \$3,601,000 in the nine months ended September 30, 2002. This decrease was primarily a result of the decreased number of employees resulting in decreased compensation, decreased professional services fees, and decreases in other costs associated with the limited scope of operations over the prior year.

27

EQUITY IN LOSSES AND IMPAIRMENT OF INVESTMENTS IN UNCONSOLIDATED AFFILIATES. Equity in losses and Impairment of investments in unconsolidated affiliates was \$9,101,000 in the three months ended September 30, 2001 and \$22,000 in the three months ended September 30, 2002, and \$12,175,000 in the nine months ended September 30, 2001 and \$604,000 in the nine months ended September 30, 2002. Equity in losses of unconsolidated affiliates is a result of the Company's minority ownership in Broadstream, NetPro and InSys that have been accounted for under the equity method of accounting. Under the equity method of accounting, the Company's proportionate share, calculated on an as-if-converted basis, of the investee's operating losses and amortization of the Company's net excess investment over its equity in the investee's net assets is included in equity in losses of unconsolidated affiliates. Impairment of investments in unconsolidated affiliates is a result of the cessation of NetPro's and LiveSky's operations in 2002. The Company evaluated the recoverability of its investments in light of the carrying values relative to future cash flows. As a result of this analysis, the Company recorded impairment charges that reduced the remaining investment balances to \$0.

INTEREST AND DIVIDEND INCOME. Interest and dividend income was \$144,000 in the three months ended September 30, 2001 and \$224,000 in the three months ended September 30, 2002, and \$754,000 in the nine months ended September 30, 2001 and \$636,000 in the nine months ended September 30, 2002. The decrease in interest and dividend income for the nine months ended September 30, 2002 was attributable to a decrease in the Company's invested cash balance as it has funded its ongoing operations, partially offset by interest income earned on notes receivable. The increase in interest and dividend income for the three months ended September 30, 2002 was attributable to increased interest income earned on notes receivable as a result of the purchase of additional notes receivable from Excelsior. Interest income in future periods may fluctuate as a result of the average cash we maintain and changes in the market rates of our cash equivalents, and we expect that the average cash balance may continue to decrease as the Company continues to incur operating losses.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

INCOME TAXES. The Company has available estimated net operating loss carry forwards for income tax purposes of approximately \$22,014,723 through the period ended September 30, 2002, which expire on various dates from 2001 through 2021. A valuation allowance has been established due to uncertainty whether the Company will generate sufficient taxable earnings to utilize the available net operating loss carryforwards. A portion of the Company's net operating loss carryforwards may also be limited due to significant changes in ownership under Section 382 of the Tax Reform Act of 1986.

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL SOURCE OF FUNDING

On March 28, 2000, an investor group led by Pangea Internet Advisors, LLC purchased 4,000,000 shares of Series B convertible preferred stock for net proceeds to the Company of approximately \$39,450,000 in cash. Also on March 28, 2000, certain other investors purchased warrants to purchase 41,250,000 shares of common stock for \$100,000.

28

WORKING CAPITAL AND RESULTS OF OPERATIONS

The Company had \$1,533,000 in cash and cash equivalents available as of September 30, 2002, invested predominantly in instruments that are highly liquid, investment grade securities that have maturities of less than 45 days.

Beginning in the third quarter of 2001, in response to continued unfavorable market conditions for its services, the Company embarked on a review of its operations with the goal of formulating a course of action to minimize near term losses, capital expenditures and reduce cash outflows. As of September 30, 2002, the Company has a single operating subsidiary, a limited number of employees and has significantly reduced fixed expenses. During the nine months ended September 30, 2002, the Company used \$7,359,000 to fund operations and to make strategic investments. Given the Company's current level of operations, if Excelsior Radio Networks, Inc. fails to repay the aggregate principal amount of the note issued by it to the Company when due, and the Company is unable to foreclose on its security interest in Excelsior's assets, the Company's existing capital resources may not be sufficient to meet anticipated cash needs for working capital and capital expenditures and the Company may be required to seek additional funding.

The Company's future contractual obligations at September 30, 2002 were as follows:

	Amounts Due in Fiscal Year Ending December 31,		
	2002	2003	2004
			(in thousands)
Operating leases	\$ 252	\$ 850	\$ 184
Capital Leases	35	83	--
Involuntary termination	63	169	--
	\$ 350	\$1,102	\$ 184

The Company intends to fund these obligations from its cash on hand at September 30, 2002 and the repayment by Excelsior Radio Networks of its note issued by it to the Company.

29

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this report, including information appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). The Company desires to take advantage of certain "Safe Harbor" provisions of the Reform Act and is including this special note to enable the Company to do so.

Forward-Looking Statements involve known and unknown risks, uncertainties, and other factors, which could cause the Company's actual results, performance (financial or operating) or achievements to differ materially from the future results, performance (financial or operating) or achievements expressed or implied by such Forward-Looking Statements. Such risks, uncertainties and other factors include, among others:

- o the Company has a limited operating history so it will be difficult to predict the Company's future performance;
- o the Company is not currently profitable and expects to incur future losses;
- o the Company's success depends on its ability to retain its key personnel;
- o the Company does not have long-term contracts with clients and needs to establish relationships with new clients; and
- o the Company operates in a highly competitive market with low barriers to entry

As a result, no assurance can be given as to future results, levels of activity or achievements.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK INTEREST RATE RISK

The primary objective of the Company's investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, the Company maintains its portfolio of cash, cash equivalents and money market funds.

As of September 30, 2002, the Company held cash and cash equivalents with an average maturity of 45 days or less.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

ITEM 4 - CONTROLS AND PROCEDURES

(a) The President, Chief Executive Officer and Chief Financial Officer of the Company has concluded, based on his evaluation as of a date within 90 days prior to the date of the filing of this quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2002, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (the "SEC") rules and

30

forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the President, Chief Executive Officer and Chief Financial Officer of the Company, as appropriate, to allow timely decisions regarding required disclosure.

(b) There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

31

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

The Company is subject to certain legal claims and is involved in litigation from time to time in the ordinary course of its business. It is the Company's opinion that it either has adequate legal defenses to such claims or that any liability that might be incurred due to such claims will not, in the aggregate, exceed the limits of the Company's insurance policies or otherwise result in any material adverse effect on the Company's operations or financial position.

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

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

On August 21, 2002, the Company held its annual meeting of stockholders (the "Annual Meeting"). Three matters were voted upon at the Annual Meeting including (1) the election of five directors to hold office until the Company's

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

next annual meeting or until their successors are duly elected and qualified, (2) the ratification of the selection by the Board of Directors of KPMG LLP ("KPMG") as the Company's independent auditors for the fiscal year ending December 31, 2002 and (3) the approval and ratification of the grant to William Avery, the Company's President, Chief Executive Officer and Chief Financial Officer of an option to purchase 6,000,000 shares of the Company's common stock, par value \$.01 per share ("Common Stock").

(i) ELECTION OF DIRECTORS.

Each of the following directors were elected at the Annual Meeting to hold office until the Company's next annual meeting or until their successors are duly elected and qualified: William Avery, James M. Dubin, Michael Gleason, Michael Levitt and William E. Lipner. The following table provides information as to the number of votes cast for, cast against or withheld, in addition to any broker non-votes received, with respect to the election of each nominee.

	FOR	AGAINST	WITHHELD
William Avery	84,158,294	12,037,936	4,190,704
James M. Dubin	84,478,294	11,717,936	4,190,704
Michael Gleason	83,567,444	12,628,786	4,190,704
Michael Levitt	84,478,294	11,717,936	4,190,704
William E. Lipner	84,478,294	11,717,936	4,190,704

32

(ii) RATIFICATION OF KPMG AS THE COMPANY'S INDEPENDENT AUDITORS.

The Board of Directors selected KPMG to serve as the independent auditors of the Company for the fiscal year ending December 31, 2002. KPMG has served as the Company's independent auditors since July 13, 2000. A total of 92,665,094 votes were cast for, and a total of 5,873,490 votes were cast against the ratification of the selection by the Board of Directors of KPMG as the Company's independent auditors for the fiscal year ending December 31, 2002. A total of 1,848,350 abstentions and 0 broker non-votes were received on such matter.

(iii) OPTION GRANT TO WILLIAM AVERY.

The Company's stockholders were asked to approve the grant (the "Grant") to William Avery of an option to purchase 6,000,000 shares of the Company's Common Stock pursuant to the terms and conditions of a Stock Option Agreement dated September 21, 2001 between the Company and William Avery (the "Stock Option Agreement"). Pursuant to the Stock Option Agreement, the option to Mr. Avery was granted in accordance with the terms and conditions of the Company's 2000 Stock Option Plan, although the option was granted outside of such plan. The option award was granted outside of the plan because

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

the terms of the plan would not allow a grant of this size.

Twenty-five percent (25%) of the option vests on each of the first four anniversaries of the date of the option grant. The option can be exercised for \$0.03 per share, the fair market value of a share of the Company's Common Stock on the date of grant. Mr. Avery received this option grant in connection with his appointment as Chief Executive Officer of the Company as a retention and incentive mechanism. The option expires on September 21, 2011. Pursuant to the Stock Option Agreement, (i) if Mr. Avery ceases to be employed by the Company as a result of his death or disability, vesting will cease as of the date of termination and the option will remain exercisable for a period of 365 days following such termination, (ii) if Mr. Avery's employment is terminated by the Company other than for cause, one-third of the then unvested option shares will vest on the date of such termination and the option will remain exercisable for a period of ninety (90) days following such termination, (iii) if Mr. Avery's employment is terminated by the Company for cause, the option will expire on the date of such termination and (iv) if Mr. Avery terminates his employment, vesting will cease as of the date of termination and the option will remain exercisable for a period of thirty (30) days following such termination.

A total of 65,727,231 votes were cast for, and a total of 30,628,903 votes were cast against the approval and ratification of the Grant to Mr. Avery. A total of 4,030,800 abstentions and 0 broker non-votes were received on such matter.

33

ITEM 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are incorporated herein by reference to other documents previously filed with the SEC:

- 2.1 Agreement and Plan of Merger of Arinco Computer Systems Inc. with and into Change Technology Partners, Inc. (d/b/a Pangea Internet, Inc.), dated April 21, 2000 (filed as an exhibit to the Registrant's Report on Form 8-K dated September 12, 2000 and incorporated herein by reference).
- 2.2 Agreement and Plan of Merger of CTPI Acquisition Corp. with and into eHotHouse, Inc., dated February 5, 2001 (filed as an exhibit to the Registrant's Annual Report on Form 10-K dated March 27, 2001 and incorporated herein by reference).
- 2.3 Agreement and Plan of Merger among Change Technology Partners, Inc. and Franklin Capital Corporation, dated December 4, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated December 5, 2001 and incorporated herein by reference).

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

- 2.4 Amendment No. 1 to Agreement and Plan of Merger by and between Change Technology Partners, Inc. and Franklin Capital Corporation, dated April 3, 2002 (filed as an exhibit to the Registrant's Report on Form 8-K dated April 3, 2002 and incorporated herein by reference).
- 2.5 Plan of Liquidation and Dissolution of Change Technology Partners, Inc., dated September 30, 2002 (filed as an exhibit to the Registrant's Report on Form 8-K dated October 2, 2002 and incorporated herein by reference).
- 3.1 Certificate of Incorporation of Change Technology Partners, Inc. (filed as an exhibit to the Registrant's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2000 and incorporated herein by reference).
- 3.2 Bylaws of Change Technology Partners, Inc. (filed as an exhibit to the Registrant's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2000 and incorporated herein by reference).
- 4.1 Form of stock certificate for common stock (filed as an exhibit to the Registrant's Annual Report on Form 10-K dated March 27, 2001 and incorporated herein by reference).
- 4.2 Registration Rights Agreement by and among Arinco Computer Systems Inc., Pangea Internet Advisors LLC and the persons party to the Securities Purchase Agreement, dated as of March 28, 2000 (filed as an exhibit to the Registrant's Report on Form 8-K dated March 28, 2000 and incorporated herein by reference).

34

- 10.1 Securities Purchase Agreement, dated March 9, 2000, by and between Arinco Computer Systems Inc., Pangea Internet Advisors LLC and the purchasers listed on Schedule I attached thereto (filed as an exhibit to the Registrant's Report on Form 8-K dated March 28, 2000, and incorporated herein by reference).
- 10.2 Amended and Restated Business Opportunity Allocation and Miscellaneous Services Agreement by and between Change Technology Partners, Inc., FG II Ventures, LLC and Pangea Internet Advisors LLC, dated as of November 10, 2000 (filed as an exhibit to the Registrant's Annual Report on Form 10-K dated March 27, 2001 and incorporated herein by reference).
- 10.3 Warrants for William Avery, Cary S. Fitchey, The Roberts Family Revocable Trust U/D/T dated as of December 15, 1997, David M. Roberts and Gail M. Simpson, Trustees, Roberts Children Irrevocable Trust U/D/T dated October 21, 1996, Stephen H. Roberts, Trustee and Turtle Holdings LLC (filed as an exhibit to the Registrant's Report on Form 8-K dated March 28, 2000 and incorporated herein by reference).
- 10.4 Stock Purchase Agreement dated June 29, 2000 by and between Arinco Computer Systems Inc., Broadstream.com, Inc. and the purchasers listed on Schedule I attached thereto (filed as an exhibit to the Registrant's Report on Form 8-K dated June 29, 2000 and incorporated herein by reference).
- 10.5 Stock Purchase Agreement, dated September 15, 2000, by and between Change Technology Partners, Inc. and eHotHouse, Inc. (filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 15, 2000 and incorporated herein by reference).

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

- 10.6 Agreement for Sale and Purchase of Business Assets among InSys Technology Inc., ATC InSys Technology, Inc., and ATC Group Services Inc. dated October 5, 2000 (filed as an exhibit to the Registrant's Report on Form 8-K dated October 18, 2000 and incorporated herein by reference).
- 10.7 Assumption Agreement among InSys Technology, Inc., ATC InSys Technology Inc. and ATC Group Services Inc. dated October 18, 2000 (filed as an exhibit to the Registrant's Report on Form 8-K dated October 18, 2000 and incorporated herein by reference).
- 10.8 Employment Agreement entered into by and between Arinco Computer Systems Inc. and Matthew Ryan dated as of August 21, 2000 (filed as an exhibit to the Registrant's Report on Form 8-K dated November 20, 2000 and incorporated herein by reference).
- 10.9 Employment Agreement entered into by and between Change Technology Partners, Inc. and Kathleen Shepphird dated as of November 10, 2000 (filed as an exhibit to the Registrant's Annual Report on Form 10-K dated March 27, 2001 and incorporated herein by reference).
- 10.10 Agreement and Plan of Merger among eHotHouse Inc., eHH Merger I, Inc., RAND Interactive Corporation, and Todd Burgess, David Kelley, John Snow, Stephen Riddick and Brobeck, Phleger and Harrison LLP dated November 30, 2000 (filed as an exhibit to

35

- the Registrant's Report on Form 8-K dated November 30, 2000 and incorporated herein by reference).
- 10.11 Agreement and Plan of Merger among Change Technology Partners, Inc., Iguana Studios I, Inc., and Iguana Studios, Inc., dated March 1, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated March 14, 2001 and incorporated herein by reference).
- 10.12 Stockholders Agreement entered into by Change Technology Partners, Inc., and Stockholders of Iguana dated March 1, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated March 14, 2001 and incorporated herein by reference).
- 10.13 Agreement and Plan of Merger among Change Technology Partners, Inc., Canned Interactive, Inc., Papke-Textor, Inc., Textor Family Limited Partnership, Papke Family Limited Partnership, Douglas Textor and Jay Papke, dated June 12, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated June 12, 2001 and incorporated herein by reference).
- 10.14 Employment Agreement effective as of September 19, 2001 by and between Change Technology Partners, Inc. and William Avery (filed as an exhibit to the Registrant's Annual Report on Form 10-K dated March 26, 2002 and incorporated herein by reference).
- 10.15 Severance Compensation Agreement effective as of September 19, 2001 by and between Change Technology Partners, Inc. and William Avery (filed as an exhibit to the Registrant's Annual Report on Form 10-K dated March 26, 2002 and incorporated herein by reference).

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

- 10.16 Stock Purchase Agreement by and among NetPro Holdings, Inc., Change Technology Partners, Inc., and Adelson Investors LLC dated November 30, 2001 (filed as an exhibit to the Registrant's Annual Report on Form 10-K dated March 26, 2002 and incorporated herein by reference).
- 10.17 Purchase and Sale Agreement by and between John J. Goodwin and Change Technology Partners, Inc. dated November 8, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated November 8, 2001 and incorporated herein by reference).
- 10.18 Promissory Note issued by InSys Technology LLC to Change Technology Partners, Inc. dated November 8, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated November 8, 2001 and incorporated herein by reference).
- 10.19 Share Purchase Agreement by and between Change Technology Partners, Inc. and John Snow, dated November 2, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated November 2, 2001 and incorporated herein by reference).
- 10.20 Warrant to Purchase Common Stock, issued by RAND Interactive Corporation to Change Technology Partners, Inc. dated November 2, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated November 2, 2001 and incorporated herein by reference).
- 36
- 10.21 Promissory Note issued by eCom Capital, Inc. to Change Technology Partners, Inc. dated August 28, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated August 28, 2001 and incorporated herein by reference).
- 10.22 Security Agreement among eCom Capital, Inc., Franklin Capital Corporation and Change Technology Partners, Inc. dated August 28, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated August 28, 2001 and incorporated herein by reference).
- 10.23 Warrant, issued by eCom Capital, Inc. to Change Technology Partners, Inc. dated August 28, 2001 (filed as an exhibit to the Registrant's Report on Form 8-K dated August 28, 2001 and incorporated herein by reference).
- 10.24 Stock Purchase Agreement between Change Technology Partners, Inc. and Franklin Capital Corporation dated December 4, 2001 (filed as an exhibit to the Registrant's Annual Report on Form 10-K dated March 26, 2002 and incorporated herein by reference).
- 10.25 Promissory Note issued by Excelsior Radio Networks, Inc. to Change Technology Partners, Inc. dated April 3, 2002 (filed as an exhibit to the Registrant's Report on Form 8-K dated April 3, 2002 and incorporated herein by reference).
- 10.26 Security Agreement among Excelsior Radio Networks, Inc., Sunshine II, LLC and Change Technology Partners, Inc. dated April 3 2002 (filed as an exhibit to the Registrant's Report on Form 8-K dated April 3, 2002 and incorporated herein by reference).
- 99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

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) The following reports on Form 8-K were filed with the SEC during the third quarter of 2002:

- (i) On July 1, 2002 reporting matters under Item 5, Other Events, and Item 7, Financial Statements and Exhibits.
- (ii) On July 29, 2002 reporting matters under Item 7, Financial Statements and Exhibits, and Item 9, Regulation FD Disclosure.

37

SIGNATURES

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

Dated: November 14, 2002

CHANGE TECHNOLOGY PARTNERS, INC.

By: /s/ William Avery

William Avery
President, Chief Executive Officer
and Chief Financial Officer

38

CERTIFICATIONS

I, William Avery, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Change Technology Partners, 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

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

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 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 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 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 significant role in the registrant's internal controls.

39

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/ William Avery

William Avery
Chief Executive Officer

I, William Avery, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Change Technology Partners, 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 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 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 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 significant role in the registrant's internal controls.

Edgar Filing: CHANGE TECHNOLOGY PARTNERS INC - Form 10-Q

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/ William Avery

William Avery
Chief Financial Officer