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CHANGE TECHNOLOGY PARTNERS INC
Form 10-Q
September 04, 2001

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 June 30, 2001

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 06830
(Address of principal executive offices) (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 .

The number of shares of the issuer's common stock outstanding on August 31, 2001 was approximately 157,334,362.

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PART I. - FINANCIAL INFORMATION
 ITEM 1. - CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS:
 CHANGE TECHNOLOGY PARTNERS, INC.
 AND SUBSIDIARIES
 Condensed Consolidated Balance Sheets
 (in thousands except share and per share amounts)
 JUNE 30, DECEMBER 31,

	2001
	----- (Unaudited)
ASSETS	
Cash and cash equivalents, including restricted cash of \$200.....	\$ 17,809
Accounts receivable, net of allowances of \$120 and \$62 at June 30, 2001 and December 31, 2000, respectively.....	1,214
Unbilled receivables.....	97
Related party receivable.....	293
Notes receivable.....	167
Prepaid expenses and other current assets.....	842

Total current assets.....	20,422

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Investments in unconsolidated subsidiaries.....	1,819
Property and equipment, net.....	1,822
Purchased intangible assets and goodwill, net.....	10,186
Notes receivable, excluding current portion.....	333
Other assets.....	585

Total assets.....	\$ 35,167
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Accounts payable.....	\$ 680
Accrued expenses.....	1,399
Deferred revenues.....	128
Loan payable.....	34
Capital lease obligation.....	89

Total current liabilities.....	2,330
Long term portion of loan payable.....	112
Capital lease obligation, less current portion.....	165
Deferred rent.....	12

Total liabilities.....	2,619
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 and 3,000 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively with an aggregate liquidation preference of \$1	--
Series B - convertible into common on a 1:40 basis; \$.10 par value; 4,000,000 shares authorized, 0 and 3,000,000 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively.....	--
Common stock:	
\$.01 par value; 500,000,000 shares authorized, 179,397,920 and 44,959,000 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively.....	1,793
Additional paid-in capital.....	94,860
Deferred compensation.....	(1,458)
Accumulated deficit.....	(62,647)

Total stockholders' equity.....	32,548

Total liabilities and stockholders' equity.....	\$ 35,167
	=====

See accompanying notes to unaudited condensed consolidated financial statements.

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

	THREE MONTH JUN
	----- 2001 -----
Revenues.....	\$ 1,530
Cost of revenues, including amortization of purchased intangibles of \$126.....	2,312

Gross loss.....	(782)
Operating expenses:	
Selling, general, and administrative expenses exclusive of equity based compensation of \$165 in 2001.....	5,037
Equity based compensation.....	165

Total operating expenses.....	5,202
Loss from operations.....	(5,984)
Other income (expense):	
Interest and dividend income.....	244
Interest expense.....	(4)
Equity in losses of unconsolidated affiliate.....	(2,261)

Net loss.....	(8,005)
Weighted average common shares outstanding, basic and diluted.....	141,485,477
	=====
Basic and diluted net loss per common share.....	\$ (.06)
	=====

See accompanying notes to unaudited condensed consolidated financial statements.

CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

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

SIX MONTH
JU

2001

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Revenues.....	\$	3,404
Cost of revenues, including amortization of purchased intangibles of \$441.....		4,364

Gross loss.....		(960)
Operating expenses:		
Selling, general, and administrative expenses exclusive of equity based compensation of \$2,794 in 2001.....		7,821
Equity based compensation.....		2,794

Total operating expenses.....		10,615
Loss from operations.....		(11,575)
Other income (expense):		
Interest and dividend income.....		610
Interest expense.....		(7)
Equity in losses of unconsolidated affiliate.....		(3,074)

Net loss.....		(14,046)
Deemed dividend attributable to issuance of convertible preferred stock and warrants.....		--

Net loss attributable to common stockholders.....	\$	(14,046)
		=====
Weighted average common shares outstanding, basic and diluted.....		97,344,526
		=====
Basic and diluted net loss per common share.....	\$	(.14)
		=====

See accompanying notes to unaudited condensed consolidated financial statements.

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CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

Unaudited Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2001
(Dollars in thousands)

	SERIES A PREFERRED STOCK		SERIES B PREFERRED STOCK		COMMON SHARES
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES
	-----	-----	-----	-----	-----
Balance at December 31, 2000.....	3,000	\$ --	3,000,000	\$ 300	44,959,000

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Amortization of deferred compensation.....	--	--	--	--	--
Acquisition of Iguana Studios, Inc.....	--	--	--	--	2,700,000
Settlement of stock award to CEO of eHotHouse, Inc.....	--	--	--	--	3,144,494
Acquisition of outstanding minority interest of eHotHouse, Inc.....	--	--	--	--	2,155,519
Acquisition of Canned Interactive, Inc.....	--	--	--	--	6,436,552
Conversion of series A preferred shares to common.....	(2,355)	--	--	--	2,355
Conversion of series B preferred shares to common.....	--	--	(3,000,000)	(300)	120,000,000
Net loss.....	--	--	--	--	--
Balance at June 30, 2001.....	645	--	--	\$ --	179,397,920

	ADDITIONAL PAID-IN CAPITAL -----	DEFERRED COMPENSATION -----	ACCUMULATED DEFICIT -----	TOTAL STOCKHOLDERS EQUITY -----
Balance at December 31, 2000.....	\$ 86,821	\$ (1,787)	\$ (48,601)	\$ 37,182
Amortization of deferred compensation.....	--	329	--	329
Acquisition of Iguana Studios, Inc.....	2,958	--	--	2,985
Settlement of stock award to CEO of eHotHouse, Inc.....	2,434	--	--	2,465
Acquisition of outstanding minority interest of eHotHouse, Inc.....	2,658	--	--	2,680
Acquisition of Canned Interactive, Inc.....	889	--	--	953
Conversion of series A preferred shares to common.....	--	--	--	--
Conversion of series B				

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preferred shares to common.....	(900)	--	--	--
Net loss.....	--	--	(14,046)	(14,046)
Balance at June 30, 2001.....	\$ 94,860	\$ (1,458)	\$ (62,647)	\$ 32,548

See accompanying notes to unaudited condensed consolidated financial statements.

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CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)

	SIX MONTHS JUNE 30
	2001
Cash flows from operating activities:	
Net loss.....	\$ (14,046)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization.....	1,498
Provision for doubtful accounts.....	43
Equity based compensation.....	2,794
Equity in losses of unconsolidated subsidiary.....	3,074
Changes in operating assets and liabilities, net of acquisitions:	
Accounts receivable.....	213
Related party receivable.....	(293)
Unbilled receivables.....	5
Prepaid expenses and other assets.....	(501)
Deferred revenue.....	(98)
Accounts payable and accrued liabilities.....	170
Net cash (used in) provided by operating activities.....	(7,144)
Cash flows from investing activities:	
Decrease in trading securities.....	--
Purchase of property and equipment.....	(669)
Notes receivable.....	(500)
Cash paid for equity investments and acquisitions, net of cash acquired.	(4,076)
Net cash used in investing activities.....	(5,245)
Cash flows from financing activities:	
Principal payments under capital leases.....	(12)
Principal payments under loans payable.....	(126)
Issuance of series B preferred stock and warrants, net of offering costs.....	--
Net cash provided by (used in) financing activities.....	(138)

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Net increase (decrease) in cash and cash equivalents.....	\$	(12,524)
Cash and cash equivalents at beginning of period.....	\$	30,333

Cash and cash equivalents at end of period, including restricted cash of \$200.....	\$	17,809
		=====

See accompanying notes to unaudited condensed consolidated financial statements.

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CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements June 30, 2001

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

During 2000 and the six months ended June 30, 2001, Change Technology Partners, Inc. and its subsidiaries (collectively, the "Company") have 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 with offices in New York, Connecticut, Maryland, California and New Jersey.

Arinco Computer Systems Inc., the predecessor to the Company, was incorporated on March 31, 1978. However, the Company formally commenced implementation of its current business plan on June 15, 2000.

In August 2001, the Board of Directors voted to divest the Company of certain of its existing operations. Simultaneous with the divestiture, the Company is evaluating new strategic business and investment opportunities.

At June 30, 2001, the Company's consolidated subsidiaries are as follows:

- o InSys Technology, Inc.
- o RAND Interactive Corporation
- o Iguana Studios, Inc.
- o Canned Interactive, Inc.

INTERIM RESULTS

The accompanying unaudited condensed consolidated balance sheet as of June 30, 2001, the unaudited condensed consolidated statements of operations and cash flows for the periods ended June 30, 2001 and 2000, and the unaudited consolidated statement of stockholders' equity as of June 30, 2001 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

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periods.

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 year ended December 31, 2000, which are contained in the Company's Annual Report on Form 10-K/A. The results for the three month and six month periods ended June 30, 2001 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

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CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2001

acquisition (see note 3). 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.

REVENUE RECOGNITION

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 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.

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. Revenues exclude reimbursable expenses charged to customers.

COST OF REVENUES

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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 on the Statement of Operations for the three months and six months ended June 30, 2001 is the amortization of purchased intangible assets, representing the value of customer relationships and workforces acquired.

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 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.

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CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements
June 30, 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.

At June 30, 2001, outstanding warrants to purchase 41,250,000 shares of common stock with a weighted average exercise price of \$0.63 per share, and 6,458,638 outstanding options to purchase common stock with a weighted average exercise price of \$1.04 per share 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. As a result, the basic and diluted net loss per share is equal for all periods presented.

SEGMENT REPORTING

Although the Company is currently divesting itself of certain of its existing operations (see note 7) and evaluating other business opportunities, it has historically offered, largely through its acquired businesses, a wide variety of professional consulting services such as e-services, technology services and systems integration. Management does not manage its operations by these product offerings, but instead views the Company as one operating segment when making business decisions, with one operating decision maker, the Chief Executive Officer. The Company manages its operations as a cross-disciplinary integrated solutions provider, which attempts to bring forth a coordinated service offering to its clients.

NEW ACCOUNTING PRONOUNCEMENTS

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In June 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133." SFAS No. 138 was issued to address a limited number of issues causing implementation difficulties for entities that apply SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," issued in June 1998. SFAS No. 133 and SFAS No. 138 require that all derivatives be measured at fair value and recognized as assets or liabilities on the balance sheet. Changes in the fair value of derivatives should be recognized in either net income (loss) or other comprehensive income (loss), depending on the designated purpose of the derivative. The Company adopted SFAS No. 133 and SFAS No. 138 in the first quarter of 2001. Adoption of these pronouncements did not have a material impact on the Company's results of operations, cash flows or financial position.

In July 2001 FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized

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CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements June 30, 2001

into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles is more than its fair value. The provisions of each statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 will be adopted by the Company on January 1, 2002. Because of the extensive effort needed to comply with adopting statements 141 and 142, it is not practicable to reasonably estimate the impact of adopting these statements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle. (2) INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

The following summarizes the Company's ownership interests in unconsolidated subsidiaries accounted for under the equity method or cost method of accounting as of June 30, 2001 (in thousands):

	JUNE 30, 2001	
	CARRYING VALUE	COST BASIS
	-----	-----
Investment in Broadstream, Inc.....	\$ 1,694	6,500
Investment in LiveSky, Inc.....	125	125
	-----	-----

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Total.....	\$	1,819	6,625
		=====	=====

INVESTMENT IN BROADSTREAM, INC.

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 \$6.5 million.

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 the equity investee the Company has assumed conversion of Series A in computing its share of losses of this investee. The Company's proportionate share of Broadstream's net loss, totaling \$2,520,000 from the date of investment through June 30, 2001, and the amortization of the excess of cost over the Company's proportionate interest in the underlying equity, totaling \$1,271,000 from the date of investment through June 30, 2001, are included in equity in losses of affiliate in the accompanying consolidated statement of operations.

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

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CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2001

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, another shareholder of Broadstream as payment for certain financing-related services performed by Adelson Investors on behalf of Broadstream. This transfer is accounted for as a contribution by the Company of such shares to Broadstream in exchange for no consideration. As a result of this non-reciprocal transfer of shares the Company recorded a charge of \$1,016,000, equal to the Company's cost basis in such shares, which has been included in equity in losses of affiliate in the accompanying statement of operations. 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.

The Company's management performs on-going reviews of its investments and, based on quantitative and qualitative measures, assesses the need to record impairment losses when impairment indicators are present. Among other factors, when

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assessing evidence of impairment, management considers the proximity of its original investment to the date of evaluation, the current period operating cash flow loss and projections that demonstrate continuing losses, the Company's commitments to provide ongoing financing, and the expectations at the time of investment of significant operating losses in the short and long term. Where impairment indicators are identified, management determines the amount of any impairment charge by comparing the carrying value of the investment and other intangible assets to their fair value. As of June 30, 2001 the Company has not recognized any impairment charges.

The Company's monitoring process will continue on a prospective basis and the facts and circumstances surrounding the relevant impairment factors evaluated by management may change in subsequent periods given that the Company operates in a volatile business environment. This could result in material impairment charges in future periods. Additionally, the Company expects Broadstream to continue to invest in development of their products and services and to recognize operating losses which will result in future charges recorded by the Company to reflect its proportionate share of such losses. These circumstances may significantly reduce the carrying value of this investment.

(3) ACQUISITIONS

ACQUISITION OF EHOTHOUSE, INC.

On September 15, 2000, the Company acquired majority voting control of eHotHouse pursuant to a transaction where eHotHouse issued Series A Convertible Participating Preferred Stock to the Company in exchange for \$3 million in cash and a covenant, by the Company, to issue 6,374,502 shares of the Company's common stock as directed by eHotHouse. The operations of eHotHouse prior to acquisition were de minimus, and the fair value of the identifiable net assets at the time of acquisition approximated \$0. Such transactions fully eliminate in consolidation and do not impact the consolidated financial statements of the Company. No consideration was provided to the existing shareholders of eHotHouse in the transaction. Accordingly, this transaction effectively represented the initial capitalization of eHotHouse and no goodwill was recorded. During the period from September 2000 through February

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CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2001

2001 eHotHouse completed several business combinations. However, eHotHouse did not exercise its right under the aforementioned covenant to have the Company issue additional shares of the Company's common stock.

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 \$182,000 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 \$2.6 million 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, \$2.5 million, representing the stock portion of the settlement, was included in equity-based compensation in the statement of operations for the six months ended June 30, 2001.

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Also 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 \$2.7 million and approximately \$218,000 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 \$2.9 million was allocated to identified intangible assets, including the assembled workforce. The fair value of acquired intangible assets was capitalized and is being amortized over the estimated useful life of three years. Related amortization for the six months ended June 30, 2001 totaled \$405,000.

ACQUISITION OF INSYS TECHNOLOGIES, INC.

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, in exchange for \$0.9 million in cash including acquisition costs. The business combination was accounted for using the purchase method.

ACQUISITION 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 in exchange for \$0.7 million of eHotHouse common stock and \$0.7 million in cash including acquisition costs. The business combination was accounted for using the purchase method.

ACQUISITION OF IGUANA STUDIOS, INC.

In March 2001, the Company acquired Iguana Studios, Inc. ("Iguana"), a New York City-based interactive agency, for approximately \$5.8 million, including \$2.8 million in cash, 2,700,000 shares of the Company's common stock valued at approximately \$2.0 million, and replacement options to purchase 1,681,888 shares of Company common stock, which vested upon the change in control, valued at approximately \$1.0 million.

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CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2001

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 \$1.0 million was allocated to the net assets acquired, \$1.3 million 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

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assembled workforce. The purchased intangible assets and goodwill are being amortized over their estimated useful lives of three years. Related amortization for the six months ended June 30, 2001 totaled \$534,000.

Also in connection with the acquisition of Iguana 2,300,000 shares of the Company's common stock were placed in escrow for a period to end no later than June 2002. The then fair value of such shares will be included in the aggregate purchase price if and when released from escrow, pending the outcome of the contingency, as defined.

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 \$1.1 million in cash, including acquisition costs, and 6,436,552 shares of the Company's common stock valued at approximately \$1.0 million. The business combination was accounted for using the purchase method of accounting.

The Company is in the process of finalizing its estimates that will be used in the assignment of the purchase price to identified intangible and tangible assets acquired and liabilities assumed. At June 30, 2001, these estimates are not completed, and the entire Canned excess purchase price has been included within intangible assets in the accompanying unaudited condensed balance sheet and has been amortized using a preliminary estimated useful life of three years.

Also in connection with the acquisition of Canned, \$200,000 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.

PRO FORMA FINANCIAL INFORMATION (UNAUDITED)

The following unaudited pro forma information is presented as if the Company had completed the above acquisitions as of January 1, 2000 and includes amortization of related intangible assets resulting from the acquisitions. The unaudited pro forma information is not necessarily indicative of what the results of operations would have been had the acquisitions taken place at those dates or of the future results of operations.

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CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2001

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	(unaudited, in thousands)	
Revenues.....	\$ 4,667	\$ 8,616
Net loss.....	\$ (15,275)	\$ (1,251)

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Net loss attributable to common stockholders.....	\$	(15,275)	\$ (41,251)
Pro Forma weighted average common shares outstanding, basic and diluted.....		104,021,090	37,929,412
		=====	=====
Pro Forma basic and diluted net loss per common share.....	\$	(.15)	\$ (1.09)
		=====	=====

As discussed in note 7, during July 2001 the Board of Directors terminated the employment of the Company's Chief Executive Officer and 20% of the Company's workforce. In August 2001, the Board of Directors voted to divest the Company of certain of its existing operations. As the terminations included components of the assembled workforces acquired in its various business combinations, and the Company is in the process of divesting itself of operations previously associated with the acquired entities, it will be evaluating the impact of this event upon the carrying value of the intangible assets acquired. The Company may incur impairment charges during the third quarter, and the carrying value of these intangible assets may be significantly reduced.

(4) NOTES RECEIVABLE

In April 2001, the Company loaned two consultants an aggregate of \$500,000. The full recourse promissory notes, with initial principal amounts of \$350,000 and \$150,000, respectively, accrue interest at the rate of 7.25% per annum. Payments are due in three equal installments of principal plus accrued interest commencing on April 25, 2002 and continuing annually thereafter through April 25, 2004.

(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 operating leases as of June 30, 2001:

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CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2001

YEAR ENDED DECEMBER 31, -----	
2001.....	\$ 615,000
2002.....	1,171,000
2003.....	965,000
2004.....	417,000
2005.....	64,000

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\$ 3,232,000

EMPLOYMENT AGREEMENTS

As of June 30, 2001, Change Technology Partners, Inc. and/or its subsidiaries have employment agreements with seventeen (17) senior employees that provide for severance benefits, among other items. In the event these agreements are terminated, Change Technology Partners, Inc. and/or its subsidiaries may be liable for severance payments of up to an aggregate of approximately \$1,995,000 of compensation and benefits payable during the years following termination.

LOANS PAYABLE

As of June 30, 2001, the Company has current and long-term loans payable and lines of credit payable of \$146,000, \$132,000 of which represents amounts due under revolving lines of credit. During July 2001, the Company repaid all amounts under these lines of credit and terminated the associated line of credit facilities.

The remaining loan payable amount of \$14,000 at June 30, 2001 represents the balance due under a five-year unsecured promissory note with the landlord of one of the Company's subsidiaries. The loan bears interest at 9.925% per annum. Monthly principal and interest payments in the amount of \$382 commenced in November 2000 and are scheduled to terminate in July 2005.

(6) RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2001, the Company incurred legal fees in connection with certain transactions and other matters in the normal course of business. A portion of these services was provided by a firm of which a member of the Board of Directors of the Company is a partner. Fees paid to this firm totaled approximately \$338,000 and \$511,000 in the three months and six months ended June 30, 2001, respectively.

Additionally, during the three months ended June 30, 2001, 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 is affiliated. Fees paid to this firm totaled \$165,000 and \$360,000 in the three months and six months ended June 30, 2001, respectively. Additionally, this firm occupies a portion of the Company's office space in Connecticut, for which it pays

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CHANGE TECHNOLOGY PARTNERS, INC. AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2001

rent at fair market value. Such payments to the Company totaled \$186,000 during the six months ended June 30, 2001. Furthermore, the firm was indebted to the Company in the amount of \$293,000 at June 30, 2001 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.

(7) SUBSEQUENT EVENTS

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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 will pay the former executive the severance he is entitled to under his employment agreement and expects to incur a charge in the Statement of Operations for the three months ended September 30, 2001 for the value of all expected payments and benefits payable to the former executive. Additionally, the Company is in the process of evaluating the impact of the executive's termination upon the carrying value of certain intangible assets and also expects to reverse certain deferred compensation related to unvested options that were forfeited in connection with the termination. This assessment has not yet been finalized, but is expected to result in a significant reduction in the carrying value of these intangible assets.

Also in July 2001, in response to continued unfavorable market conditions for its services the Company embarked on a review of all operations with the goal of formulating a course of action to minimize near-term losses, capital expenditures, and reduce cash outflows. As an initial course of action, on July 12, the Company terminated the employment of approximately 20% of its workforce. In August 2001, the Board of Directors voted to divest the Company of certain of its existing operations in the consulting services, e-services and technology strategy, online branding, web architecture and design, systems integration, systems architecture and outsourcing areas, which may have a material impact on the carrying value of acquired intangible assets, the overall financial position of the Company and the results of operations in all prospective periods. Since that time the Company has reduced corporate overhead, and has eliminated certain of its operating divisions and its Iguana Studios subsidiary. Additionally, the Company has signed letters of intent to sell its InSys and RAND Interactive subsidiaries back to certain members of their respective managements. Simultaneous with the divestiture, the Company is evaluating new strategic business and investment opportunities.

On August 15, 2001 the Company purchased a secured convertible promissory note from Broadstream for \$600,000 as part of a \$1,600,000 bridge loan financing of Broadstream. The note earns interest at a rate of 8% per annum, and matures on December 31, 2001. The aggregate bridge loan financing is secured by all of Broadstream's assets. The note also contains certain conversion provisions in the event Broadstream closes a new round of financing or enters into a change of control transaction.

On August 28, 2001 the Company purchased a promissory note from eCom Capital, Inc. ("eCom") for \$2,250,000. The note earns interest at a rate of 8.5% per annum, matures on September 30, 2002 and is secured by most of eCom's assets. The note also contains certain mandatory prepayment and automatic conversion provisions. In addition, the Company received a warrant to purchase 482,955 shares of eCom's common stock, representing 12.5% of eCom's fully-diluted capital stock as of the date of

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CHANGE TECHNOLOGY PARTNERS, INC.
AND SUBSIDIARIES

Notes to Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2001

issuance, at an exercise price of \$1.125 per share. eCom, a subsidiary of Franklin Capital Corporation, recently purchased certain assets of Winstar Radio which produce, syndicate and distribute radio programs and services.

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

The following discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and accompanying notes, and with the Company's audited Consolidated Financial Statements and accompanying notes for the fiscal year ended December 31, 2000. Certain statements contained within this discussion constitute forward-looking statements. See "Special Note Regarding Forward Looking Statements."

OVERVIEW

Prior to commencement of the operational divestiture described in note 7, 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, systems architecture and outsourcing. The Company has served clients throughout the United States with offices in New York, Connecticut, Maryland, California and New Jersey.

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 as services are rendered using the percentage-of-completion method, based on the percentage of costs incurred to date to total estimated project costs, provided collection of the resulting receivable is probable. The cumulative impact of any revision in estimates of the costs to complete and losses on projects in process are reflected in the period in which they become known.

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.

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 proportion of the Company's expenses are 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 scope. Therefore, a client that accounts for a significant portion of the Company's revenues in one period may not

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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

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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 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' equity based compensation expense is comprised of amortization of the deferred compensation associated with the grant of stock options to the Company's Board of Directors and former 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 equity-based compensation during the six months ended June 30, 2001 is the cost associated with 3,144,494 shares of Company common stock issued as partial consideration in exchange for the former President and Chief Executive Officer's shares of eHotHouse common stock. Such cost is measured as the excess of the fair value of the Company shares issued as settlement over the fair value of the eHotHouse shares on the original date of grant. The Company incurred approximately \$2,794,000 in equity based compensation expense during the six months ended June 30, 2001.

RECENT DEVELOPMENTS

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 will pay the former executive the severance he is entitled to under his employment agreement and expects to incur a charge in the Statement of Operations for the three months ended September 30, 2001 for the value of all expected payments and benefits payable to the former executive. Additionally, the Company is in the process of evaluating the impact of the executive's termination upon the carrying value of intangible assets and also expects to reverse certain deferred compensation related to unvested options that were forfeited in connection with the termination. This assessment has not yet been finalized, but is expected to result in a significant reduction in the carrying value of these intangible assets.

Also in July 2001, in response to continued unfavorable market conditions for its services the Company embarked on a review of all operations with the goal of formulating a course of action to minimize near-term losses, capital expenditures, and reduce cash outflows. As an initial course of action, on July 12, the Company terminated the employment of approximately 20% of its workforce. In August 2001, the Board of Directors voted to divest the Company of certain of its existing operations in the consulting services, e-services and technology

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strategy, online branding, web architecture and design, systems integration, systems architecture and outsourcing areas, which may have a material impact on the carrying value of acquired intangible assets, the overall financial position of the Company and the results of operations in all prospective periods. Since that time the Company has reduced corporate overhead, and has eliminated certain of its operating divisions and its Iguana Studios subsidiary. Additionally, the Company has signed letters of intent to sell its InSys and RAND Interactive subsidiaries back to certain members of their respective managements. Simultaneous with the divestiture, the Company is evaluating new strategic business and investment opportunities.

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On August 15, 2001 the Company purchased a secured convertible promissory note from Broadstream for \$600,000 as part of a \$1,600,000 bridge loan financing of Broadstream. The note earns interest at a rate of 8% per annum, and matures on December 31, 2001. The aggregate bridge loan financing is secured by all of Broadstream's assets. The note also contains certain conversion provisions in the event Broadstream closes a new round of financing or enters into a change of control transaction.

On August 28, 2001 the Company purchased a promissory note from eCom Capital, Inc. ("eCom") for \$2,250,000. The note earns interest at a rate of 8.5% per annum, matures on September 30, 2002 and is secured by most of eCom's assets. The note also contains certain mandatory prepayment and automatic conversion provisions. In addition, the Company received a warrant to purchase 482,955 shares of eCom's common stock, representing 12.5% of eCom's fully-diluted capital stock as of the date of issuance, at an exercise price of \$1.125 per share. eCom, a subsidiary of Franklin Capital Corporation, recently purchased certain assets of Winstar Radio which produce, syndicate and distribute radio programs and services.

ACQUISITIONS

We evaluate 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.

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 2.2 million shares of the Company, valued at approximately \$2.7 million, and \$0.2 million in cash. The acquisition was accounted for using the purchase method of accounting. On May 16, 2001, eHothouse merged with and into the Company.

IGUANA. On March 1, 2001, the Company acquired all outstanding shares of Iguana, a leading provider of media and technical services, in exchange for approximately \$2.8 million in cash, including acquisition costs, 2,700,000 shares of Company common stock, valued at approximately \$2.0 million, and replacement options to purchase 1,681,888 shares of Company common stock valued at approximately \$1.0 million. The acquisition was accounted for using the purchase method of accounting.

CANNED. On June 12, 2001, the Company acquired Papke-Textor, Inc. d/b/a Canned Interactive ("Canned"), a Los Angeles-based media and entertainment interactive agency, for approximately \$1.1 million in cash, including acquisition costs, and 6,436,552 shares of the Company's common stock valued at approximately \$1.0

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million. The business combination was accounted for using the purchase method.

BROADSTREAM. 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. In connection with this non-reciprocal transfer of shares the Company recorded a charge of \$1,016,000, equal to the Company's cost basis in such shares, which

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has been included in equity in losses of affiliate in the accompanying statement of operations. 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.

As discussed in note 7, during July 2001 the Board of Directors terminated the employment of the Company's Chief Executive Officer and 20% of the Company's workforce. In August 2001, the Board of Directors voted to divest the Company of certain of its existing operations. As the terminations included components of the assembled workforces acquired in its various business combinations, and the Company is in the process of divesting itself of operations previously associated with the acquired entities, it will be evaluating the impact of this event upon the carrying value of the intangible assets acquired. The Company may incur impairment charges during the third quarter, and the carrying value of these intangible assets may be significantly reduced.

RESULTS OF OPERATIONS

THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2000, RESPECTIVELY

In July 2001, in response to continued unfavorable market conditions for its services the Company embarked on a review of all operations with the goal of formulating a course of action to minimize near-term losses, capital expenditures, and reduce cash outflows. As an initial course of action, on July 12, the Company terminated the employment of approximately 20% of its workforce. In August 2001, the Board of Directors voted to divest the Company of certain of its existing operations in the consulting services, e-services and technology strategy, online branding, web architecture and design, systems integration, systems architecture and outsourcing areas, which may have a material impact on the carrying value of acquired intangible assets, the overall financial position of the Company and the results of operations in all prospective periods. Since that time the Company has reduced corporate overhead, and has eliminated certain of its operating divisions and its Iguana Studios subsidiary. Additionally, the Company has signed letters of intent to sell a majority of its InSys and RAND Interactive subsidiaries back to certain members of their respective managements. Simultaneous with the divestiture, the Company is evaluating new strategic

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business and investment opportunities.

The Company commenced its previous business strategy in the spring of 2000 and began its primary operations in the fall of 2000 concurrent with its acquisition of majority control of eHotHouse.

REVENUES. Revenues increased from \$0 in the three months ended June 30, 2000 to \$1,530,000 in the three months ended June 30, 2001, and from \$0 to \$3,404,000 in the six months ended June 30, 2000 and 2001, respectively. These increases are a result of the contribution to revenues of acquired companies' revenue streams.

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 increased from \$0 in the three months ended June 30, 2000 to \$2,312,000 in the three months ended June 30, 2001, or 151% of revenues. These costs increased from \$0 in the six months ended June 30, 2000 to \$4,364,000 in the six months ended June 30, 2001, or 128% of revenues.

In connection with our acquisition of InSys, RAND, Iguana, and Canned, the Company recorded intangible assets representing the value ascribed to the customer lists and assembled workforces of the

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acquired companies. The aggregate amortization of these intangible assets totaled \$126,000 and \$441,000 for the three months and six months ended June 30, 2001, respectively, and is included in cost of revenues. Any additional acquisitions and the expected impairment of purchased intangibles will result in additional related costs.

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 increased from \$471,000 in the three months ended June 30, 2000 to \$5,037,000 in the three months ended June 30, 2001, and from \$475,000 to \$7,821,000 in the six months ended June 30, 2000 and 2001, respectively. These increases were primarily the result of increased compensation, increased professional services fees and increases in other costs associated with the growth of our business and operations over the prior year.

EQUITY IN LOSSES OF UNCONSOLIDATED AFFILIATES. Equity in losses of unconsolidated affiliates was \$0 in the three months ended June 30, 2000 and \$2,261,000 in the three months ended June 30, 2001, and \$0 and \$3,074,000 in the six months ended June 30, 2000 and 2001, respectively. Equity in losses of unconsolidated affiliates resulting from the Company's minority ownership in Network Prophecy (formerly known as Broadstream, Inc.) has 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 Network Prophecy's operating losses and amortization of the Company's net excess investment over its equity in Network Prophecy's net assets is included in equity in losses of unconsolidated affiliates.

The Company's management performs on-going reviews of its investments and, based on quantitative and qualitative measures, assesses the need to record impairment losses when impairment indicators are present. Among other factors, when assessing evidence of impairment, management considers the proximity of its

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original investment to the date of evaluation, the current period operating cash flow loss and projections that demonstrate continuing losses, the Company's commitments to provide ongoing financing, and the expectations at the time of investment of significant operating losses in the short and long term. Where impairment indicators are identified, management determines the amount of any impairment charge by comparing the carrying value of the investment and other intangible assets to their fair value. Although as of June 30, 2001 the Company has not recognized any impairment charges, it expects to incur significant impairment charges in the third quarter associated with those businesses of which it is currently divesting itself.

The Company's monitoring process will continue on a prospective basis and the facts and circumstances surrounding the relevant impairment factors evaluated by management may change in subsequent periods given that the Company operates in a volatile business environment. This could result in material impairment charges in future periods. Additionally, the Company expects Broadstream to continue to invest in development of their products and services and to recognize operating losses which will result in future charges recorded by the Company to reflect its proportionate share of such losses. These circumstances may significantly reduce the carrying value of this investment.

INTEREST AND DIVIDEND INCOME. Interest and dividend income was \$454,000 in the three months ended June 30, 2000 and \$244,000 in the three months ended June 30, 2001, and \$454,000 and \$610,000 in the six months ended June 30, 2000 and 2001, respectively. The increase in interest income for the six months ended June 30, 2001 over the prior year was attributable to interest earned on cash and cash equivalents primarily from the net proceeds from the Company's sale of Series B convertible preferred stock in March 2000. 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 decrease as the Company continues to incur operating losses.

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INCOME TAXES. The Company has available estimated net operating loss carryforwards for income tax purposes of approximately \$12,995,000 through the period ended June 30, 2001, 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

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.

The Company had \$17,609,000 in cash and cash equivalents available as of June 30, 2001. The Company used \$12,724,000 to fund operations, finance acquisitions and make strategic investments during the six months ended June 30, 2001. Operating and investing activities on a long-term basis may require the Company to seek additional equity or debt financing. The Company expects that future acquisitions of businesses and other strategic assets will require considerable outlays of capital.

As discussed in note 7, in July 2001 the Board of Directors terminated the

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Company's Chief Executive Officer and 20% of its workforce. In August 2001, the Board of Directors voted to divest the Company of certain of its existing operations and is in the process of doing so. Accordingly, in addition to ongoing operating and investing activities the Company may need to utilize significant cash resources in connection with the divestiture as a result of contractual commitments.

The Company invests predominantly in instruments that are highly liquid, investment grade securities that have maturities of less than 45 days.

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's clients may not adopt an internet business model;
- o the Company is still in an early stage of development and may not be able to implement its business strategy;
- 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;

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- o the Company must successfully complete and integrate acquisitions to continue its growth;
- 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;
- o the Company operates in a highly competitive market with low barriers to entry; and
- o the Company's revenues could be harmed if growth in the use of the internet does not occur.

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

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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 June 30, 2001, the Company held cash and cash equivalents with an average maturity of 45 days or less.

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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

On June 12, 2001, the Company acquired all of the outstanding shares of capital stock of Papke-Textor, Inc. d/b/a Canned Interactive ("Canned") in exchange for (a) approximately \$1.1 million in cash including acquisition costs and (b) 6,436,552 shares of Company common stock. The shares of the Company's common stock were issued to the shareholders of Canned pursuant to exemptions from the registration requirements of the Securities Act of 1933 (the "Act") set forth in Rule 506 of Regulation D of the Act.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

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

- 2.1 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).
- 2.2 Agreement and Plan of Merger among Change Technology Partners, Inc., Iguana Studios I, Inc., and Iguana Studios, Inc., dated March 1, 2001

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(filed as an exhibit to the Registrant's Report on Form 8-K dated March 14, 2001 and incorporated herein by reference).

- 2.3 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 25, 2001 and incorporated herein by reference).
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- 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).
- 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 Business Opportunity Allocation and Miscellaneous Services Agreement by and among Arinco Computer Systems Inc. and Pangea Internet Advisors LLC, 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).
- 10.3 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).
- 10.4 Employment Agreement entered into by and between Arinco Computer Systems Inc. and William Avery (filed as an exhibit to the Registrant's Report on Form 8-K dated March 28, 2000, and incorporated herein by reference).
- 10.5 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).
- 10.6 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).

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- 10.7 Employment Agreement entered into by and between Arinco Computer Systems Inc. and Frank Gallagi dated as of June 12, 2000 (filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, and incorporated herein by reference).
- 10.8 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).
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- 10.9 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).
- 10.10 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).
- 10.11 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).
- 10.12 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 Report on Form 8-K dated November 20, 2000, and incorporated herein by reference).
- 10.13 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 the Registrant's Report on Form 8-K dated November 30, 2000, and incorporated herein by reference).
- 10.14 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).
- 10.15 Lock-Up Agreement among Change Technology Partners, Inc., Iguana Studios I, Inc., Iguana Studios, 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).
- 19.1 Change Technology Partners, Inc. Annual Report on Form 10-K, dated March 27, 2001 (filed as an exhibit to the Registrant's Annual Report on Form 10-K dated March 27, 2001, and incorporated herein by reference).
- 19.2 Change Technology Partners, Inc. Annual Report on Form 10-K/A, dated May 9, 2001 (filed as an amendment to the Registrant's Annual Report on Form 10-K dated March 27, 2001 and incorporated herein by reference).

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(b) Reports on Form 8-K:

The Registrant filed a Current Report on Form 8-K on June 25, 2001 reporting matters under Item 2, Acquisition or Disposition of Assets and Item 7, Financial Statements and Exhibits.

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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: September 4, 2001

CHANGE TECHNOLOGY PARTNERS, INC.

By: /s/ William Avery

William Avery
President and Chief Executive
Officer

By: /s/ Lyndon Anthony Co

Lyndon Anthony Co
Director of Finance

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