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INDEX DEVELOPMENT PARTNERS INC
Form 10-Q
May 15, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

X Quarterly report pursuant to Section 13 or 15(d) of the Securities Act
----- of 1934

For the quarterly period ended March 31, 2003

----- Transition report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the transition period from _____ to _____

Commission File number 0-25336

KIRLIN HOLDING CORP.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

11-3229358

(I.R.S. Employer
Identification No.)

6901 Jericho Turnpike, Syosset, New York 11791

(Address of Principal Executive Offices)

(800) 899-9400

(Registrant's Telephone Number Including Area Code)

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

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

State the number of shares outstanding of each of the registrant's classes of
common equity, as of the latest practicable date: At May 14, 2003, Issuer had
outstanding 2,000,603 shares of Common Stock, par value \$.0001 per share.

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PART 1: FINANCIAL INFORMATION
 ITEM 1: FINANCIAL STATEMENTS

KIRLIN HOLDING CORP. and SUBSIDIARIES

Consolidated Statements of Financial Condition

	March 31, 2003
	----- (Unaudited)
ASSETS:	
Cash and cash equivalents	\$ 3,88
Due from Clearing Brokers	78
Securities Owned:	
U.S. government and agency obligations, at market value	10
State and municipal obligations, at market value	1,05
Corporate bonds and other securities, at market value	65
Nonmarketable securities, at fair value	6
Rebate Receivable	1,11
Representative Loans	45
Furniture, Fixtures and Leasehold Improvements, at cost, net of accumulated depreciation of \$3,060,538 and \$2,944,342, respectively	45
Deferred Tax Assets, net of valuation allowances of \$3,064,146 and \$4,119,640, respectively	81
Other Assets	66

Total assets	\$ 10,06
	=====
LIABILITIES and STOCKHOLDERS' EQUITY:	
Liabilities:	
Securities sold, not yet purchased, at market value	\$ 8
Accrued compensation	1,95
Accounts payable and accrued expenses	2,84

Total liabilities	4,88

Subordinated liabilities	2,50

Commitments and Contingencies	
Stockholders' Equity:	
Common stock, \$.0001 par value; authorized 7,000,000 shares, issued and outstanding 1,856,053 and 1,798,224 shares, respectively	
Additional paid-in capital	16,12
Unearned Stock Compensation	(26

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Accumulated deficit	(13,17
Total stockholders' equity	2,67
Total liabilities and stockholders' equity	\$ 10,06

See Notes to Consolidated Financial Statements

2

KIRLIN HOLDING CORP. and SUBSIDIARIES

Consolidated Statements of Operations

	Three Months Ended March 31,	
	2003	2002
	(Unaudited)	
Revenues:		
Principal transactions, net	\$ 159,631	\$ (206,475)
Commissions	4,247,980	5,461,709
Investment banking	-	342,982
Other income	593,187	682,934
	5,000,798	6,281,150
Expenses:		
Employee compensation and benefits	3,324,228	5,238,041
Promotion and advertising	74,141	95,375
Clearance and execution charges	110,747	167,394
Occupancy and communications	787,656	1,114,898
Professional fees	140,958	129,675
Interest	(14,206)	18,354
Other	178,644	500,209
	4,602,168	7,263,946
Income (loss) before income tax benefit	398,630	(982,796)
Income tax benefit	798,253	323,790
Net income (loss)	\$ 1,196,883	\$ (659,006)
Basic and diluted earnings (loss) per common share	\$ 0.64	\$ (0.35)

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Weighted-average shares outstanding 1,874,817 1,894,569
===== =====

See Notes to Consolidated Financial Statements

3

KIRLIN HOLDING CORP. and SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity

For the three months ended March 31, 2003
(Unaudited)

	Common Stock		Additional Paid-in Capital	Unearned Stock Compensation	Accum Def
	Shares	Par Value			
Stockholders' equity, January 1, 2003	1,798,224	\$ 180	\$ 16,226,346	\$ (283,409)	(14,
Stock issuances and amortization of unearned stock compensation	97,961	10	265,908	6,339	
Stock forfeitures	(40,132)	(4)	(370,805)	12,500	
Net income	-	-	-	-	1,
Stockholders' equity, March 31, 2003	1,856,053	\$ 186	\$ 16,121,449	\$ (264,570)	\$ (13,

See Notes to Consolidated Financial Statements

4

KIRLIN HOLDING CORP. and SUBSIDIARIES

Consolidated Statements of Cash Flows

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2003

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Cash flows from operating activities:

Net income (loss) \$ 1,1

Adjustments to reconcile net income (loss) to net cash provided by operating activities:

Depreciation	1
Amortization	-
Deferred income taxes	(8)
Decrease in nonmarketable securities	-
Noncash compensation	(
(Increase) in securities owned, at market value	(
(Increase) decrease in receivable from clearing brokers	(2
(Increase) decrease in other assets	(
(Increase) in rebate receivable	(1
Decrease in representative loans	-
(Decrease) in securities sold, not yet purchased, at market value	(
Increase (decrease) in accrued compensation	2
Increase in accounts payable and accrued expenses	5

Total adjustments (3

Net cash provided by operating activities 8

Cash flows from investing activities:

Purchase of furniture, fixtures and leasehold improvements -

Acquisition of other businesses, net of cash -

Net cash used in investing activities -

Cash flows from financing activities:

Subordinated liabilities -

Net cash provided by financing activities -

Net increase in cash and cash equivalents 8

Cash and cash equivalents, beginning of period 3,0

Cash and cash equivalents, end of period \$ 3,8

Supplemental disclosures of consolidated cashflow information:

Interest paid \$

Income taxes paid \$

Supplemental disclosures of noncash investing and financing activities:

Common stock awards, net of forfeitures \$ (

See Notes to Consolidated Financial Statements

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KIRLIN HOLDING CORP. and SUBSIDIARIES

Notes to Consolidated Financial Statements
(Unaudited)

1. Organization and Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of Kirlin Holding Corp. and its wholly owned subsidiaries, Kirlin Securities, Inc. ("Kirlin"), Greenleaf Management Corp. ("Greenleaf"), and its majority-owned (63.7%) subsidiary, VentureHighway.com Inc. ("VentureHighway") (collectively, the "Company"). VentureHighway's consolidated financial statements include the accounts of Princeton Investments Holding Corp. ("PIHC") and Princeton Securities Corporation ("Princeton"). All material intercompany transactions and balances have been eliminated in consolidation.

The Company's principal subsidiary, Kirlin, is a full-service, retail-oriented brokerage firm specializing in the trading and sale of both equity and fixed income securities, including mutual funds. Kirlin also offers a managed asset portfolio program to manage the financial assets of its clients.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes as required by generally accepted accounting principles for annual financial statements. In the opinion of management of the Company, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included. The operations for the three-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

For comparability, certain balances in the Consolidated Statement of Cash Flows for the three-month period ended March 31, 2002 have been reclassified, where appropriate, to conform to the financial statement presentation used at March 31, 2003.

The Company has elected, in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-based Compensation, to apply the current accounting rules under Accounting Principles Board ("APB") Opinion No. 25 and related interpretations in accounting for options to purchase ownership interests granted to employees and, accordingly, is presenting the disclosure-only information as required by SFAS No. 123. Had compensation costs been determined based on the fair value at the date of grant consistent with the provisions of SFAS No. 123, the Company's net income and earnings per common share for the three-months ended March 31, 2003 would have been as follows:

Net income - as reported \$ 1,196,883

Deduct: Total stock based
employee compensation expense
determined under the fair value

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based method (439,250)

Net income - pro forma	\$	757,633
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Basic and diluted income per common share - as reported	\$	0.64
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Basic and diluted income per common share - pro forma	\$	0.40
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2. Income Taxes

The entities comprising the Company, other than VentureHighway, file consolidated federal income tax returns but separate state income tax returns. VentureHighway filed a final federal income tax return on a stand-alone basis during 2002.

In recognition of the uncertainty regarding the ultimate amount of future income tax benefits to be derived from net operating loss carryforwards and other temporary differences, the Company has recorded a valuation allowance of \$3,064,146 at March 31, 2003 and \$4,119,640 at December 31, 2002.

The Company has a federal net operating loss carryforward of approximately \$3,100,000 available to offset taxable income through 2022.

6

KIRLIN HOLDING CORP. and SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

3. Earnings Per Share

The Company follows SFAS No. 128, Earnings Per Share, which provides for the calculation of "basic" and "diluted" earnings per share ("EPS"). Basic EPS includes no dilution and is computed by dividing income or loss available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflect the potential dilution that could occur through the effect of common shares issuable upon exercise of stock options and warrants and convertible securities. For the three-month period ended March 31, 2002, potential common shares have not been included in the computation of diluted EPS since the effect would be antidilutive.

4. Contingencies

In July 2002, the NASD notified Kirlin that it had made a preliminary determination to recommend that disciplinary action be brought against Kirlin and three of its current or former employees, including the president of the Company and Co-Chief Executive Officer of Kirlin, as a result of the sale of certain fixed income securities to clients of Kirlin from November 1995 to 1998. Certain of these securities were issued in \$250,000 denominations. The NASD informed Kirlin that the potential violations of the NASD conduct rules and/or federal securities laws relate to the following (all of which activity occurred prior to 1999): sales of

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unregistered securities stemming from the sale of these securities in smaller denominations, placement of false and misleading advertising relating to these securities, charging of markups on the sale of the securities in excess of NASD policy allegedly in the amount of approximately \$1,420,000 and in violation of securities laws allegedly in the amount of approximately \$44,000, failure to maintain inventory sheets as distributed to certain employees in connection with the sale of the securities, and failure to establish and enforce supervisory procedures to assure compliance with federal laws and NASD rules to prevent the aforementioned potential violations. In March 2003 the NASD initiated this disciplinary action against Kirlin and two employees seeking the imposition of sanctions, restitution and costs. The Company cannot predict the outcome of the disciplinary action at this time and is unable to determine whether this matter will have a material adverse effect on the consolidated financial condition of the Company.

In the normal course of the Company's business, the Company from time to time is involved in claims, lawsuits and arbitrations brought by its customers and former employees. It is the opinion of management, based upon its evaluation of each of these matters and the reserves established by the Company, that the resolution of all claims presently pending will not have a material adverse effect on the consolidated financial condition of the Company.

7

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

Forward-Looking Statements

When used in this Form 10-Q and in future filings by the Company with the Commission, the words or phrases "will likely result," "management expects" or "the Company expects," "will continue," "is anticipated," "estimated," "it is the opinion of management" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. These risks are included in "Item 1: Business," "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations" and in "Exhibit 99: Risk Factors" included in Form 10-K for the year ended December 31, 2002. The Company has no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements

Critical Accounting Policies

An understanding of our accounting policies is necessary for a complete analysis of our results, financial position, liquidity and trends. Note 1 to our consolidated financial statements filed with our Annual Report on Form 10-K for the year ended December 31, 2002 includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. We focus your attention on the following which provides a brief discussion of the more significant accounting policies and methods used by

us:

Valuation of Investments. The major portion of the Company's securities owned and securities sold, not yet purchased, are stated at quoted market values. Included in securities owned are stock warrants and investments in privately held companies not readily marketable, which have been valued at fair value as determined by management. The warrants are valued based on a percentage of the market value of the underlying securities. The resulting unrealized gains and losses are reflected in principal transactions, investment banking and merchant banking income. The liquidation of the Company's position could result in substantial differences from the market and fair value prices used in the financial statements.

Impairment of Deferred Tax Assets. The carrying value of the Company's net deferred tax assets assumes that it will be able to generate future taxable income, based on estimates and assumptions. If these estimates and assumptions change in the future, the Company may be required to record additional valuation allowances against its deferred tax assets, which would result in additional income tax expense. During the period the valuation allowance related to Company's deferred tax asset related to its net operating loss carryforwards and other temporary differences was changed to approximately 79% from 100%. This change arose due to the developments during the first four-months of 2003, including the recordation of income from operations for the quarter ended March 31, 2003 and the expected results for the three-month period ended June 30, 2003. Management believes that the Company is prepared to return to long-term profitability as a result of its decision to return to its core business of retail brokerage, investment and merchant banking, and money management. As a result, the Company has reduced its expenses by eliminating personnel (including members of senior management of Kirlin Securities who received fixed salaries) and reducing its real estate and operational costs, such as eliminating non-productive branch offices. In addition, the Company is confident that the imposition of an annual account maintenance fee by Kirlin Securities will achieve increased revenue of approximately \$800,000 per year.

Market, Credit, and Liquidity Risk. The Company's investing and underwriting activities often involve the purchase, sale or short sale of securities as principal. Such activities subject our capital to significant risks from markets that may be characterized by relative

8

illiquidity or may be particularly susceptible to rapid fluctuation in liquidity. Such market conditions could limit the Company's ability to resell securities purchased or to purchase securities sold short. These activities subject our capital to significant risks, including market, credit counterparty and liquidity risks. Market risks relates to the risk of fluctuating values based on market prices without action on our part. The Company's primary credit risk is settlement or counterparty risk, which relates to whether a counterparty will fulfill its contractual obligations, such as delivery of securities or payment of funds. Liquidity risk relates to the Company's inability to liquidate assets or redirect the deployment of assets contained in illiquid investments. In addition, our market and liquidity risks and risks associated with asset revaluation are increased because these

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risks for us are concentrated. The areas related to the above risks are valued based on listed market prices, where possible. If listed market prices are not available then these items are carried at fair value as determined by management, with related unrealized gains and losses recognized in the statement of operations. Actual results could differ from the values used in these financial statements.

Legal Proceedings. The Company's business involves substantial risks of liability, including exposure to liability under federal and state securities laws in connection with the underwriting or distribution of securities and claims by dissatisfied customers for fraud, unauthorized trading, churning, mismanagement and breach of fiduciary duty. The Company does not presently maintain an errors and omissions insurance policy insuring it against these risks. In the normal course of the Company's business, the Company from time to time is involved in claims, lawsuits and arbitrations brought by its customers. The Company consults its attorneys in order to estimate amounts that should be reflected in the Company's financial statements relating to pending or threatened claims. If pending or threatened claims result in damages to be paid by the Company, these amounts could be different from the amounts previously estimated and reflected in the Company's financial statements. The Company's review of existing claims, arbitrations, and unpaid settlements at March 31, 2003 resulted in an accrued liability of \$257,000.

Clearing Agreements. The Company's retail oriented brokerage firm does not carry accounts for customers or perform custodial functions related to customers' securities. The Company's broker-dealer introduces all of its customer transactions, which are not reflected in the financial statements, to its clearing brokers, which maintain the customers' accounts and clears such transactions. Additionally, the clearing brokers provide the clearing and depository operations for the broker dealer's proprietary securities transactions. These activities may expose the Company to off-balance sheet risk in the event that customers do not fulfill their obligations with the clearing brokers, as the broker-dealer has agreed to indemnify the clearing brokers for any resulting losses. The Company will record a loss from a client transaction when information becomes available to management that allows it to estimate its impact on the Company's financial statements.

Results of Operations

Principal transactions, net for the three-month period ended March 31, 2003 increased 177% to \$159,631 from \$(206,475) in 2002. The increase is primarily attributable to an unrealized loss during the three-month period ended March 31, 2002 in the value of warrants the Company received in connection with its investment banking activities. To a lesser extent the increase is attributable to an increase in revenue related to equity and fixed income business for which the Company maintained an inventory.

9

Commissions for the three-month period ended March 31, 2003 decreased 22.2% to \$4,247,980 from \$5,461,709 in 2002. The decrease is primarily attributable to the Company's decreased business in equity securities, unit trusts, and mutual funds, which are bought and sold on an agency basis for which the Company

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receives a commission. The decrease is also attributable to the absence in 2003 of the commissions related to a debt conversion the Company participated during the three-month period ended March 31, 2002.

Investment banking for the three-month period ended March 31, 2003 was \$0 as compared to \$342,984. During the three-month period ended March 31, 2003 the Company did not generate any investment banking fees.

Other income for the three-month period ended March 31, 2003 decreased 13.1% to \$593,187 from \$682,934 in 2002. The decrease is primarily attributable to the decreases in transactional and account balance rebates the Company is entitled to from its clearing broker and earnout payment income the Company is entitled to receive from GMST World Markets, Inc. offset by an increase in consulting income related to investment banking.

Employee compensation and benefits for the three-month period ended March 31, 2003 decreased 36.5% to \$3,324,228 from \$5,238,041 in 2002. Since employee compensation related to the Company's retail brokerage traders and registered representatives is directly related to revenue they generate, a portion of employee compensation follows the change in the Company's revenues. The decrease during the three-month period ended March 31, 2003 is also reflective of the reduction of base salary by the Company's Chief Executive Officer and its President by 68% and by its Chief Financial Officer by 35%. Other key management personnel also agreed to reduce their base salaries. In addition the Chief Executive Officer and President of the Company reduced the variable portion of their base salary by 100% during the three-month period ended March 31, 2003. Finally, the Company's roster of employees decreased which caused a decrease in base salaries and commission payouts related to its deferred plans.

Promotion and advertising for the three-month period ended March 31, 2003 decreased 22.3% to \$74,141 from \$95,375 in 2002 as a result of the Company's decrease in car allowances arising from the termination of certain employees as well as a decrease in promotional material expenses. The Company expects to increase its expenditures for promotion and advertising in future periods.

Clearance and execution charges for the three-month period ended March 31, 2003 decreased 33.8% to \$110,747 from \$167,394 in 2002 primarily as a result of lower ticket volume.

Occupancy and communications costs for the three-month period ended March 31, 2003 decreased 29.4% to \$787,656 from \$1,114,898 in 2002. This decrease is primarily a result of the move of one of the Company's branch offices to smaller and less expensive office space, reduction of depreciation expense related to assets that fully depreciated in the prior year, completion of the furniture financing related to the Company's Corporate offices in the prior year, reduction of communication and telephone expenses due to a reduction of the number of employees as compared to the prior year. As part of the Company's long distance telephone contract it received a credit for telephone expenses during the three-month period ended March 31, 2003.

Professional fees for the three-month period ended March 31, 2003 increased 8.7% to \$140,958 from \$129,675 in 2002. The increase is reflective of legal fees related to the Company's vacated office space in San Diego. In December 2001 the Company's sub-tenant abandoned the San Diego office space and stopped paying rent to the Company. Based on the nature of the sub-tenant's relationship with the Company's landlord, the Company decided to stop paying rent as well. The Company's landlord pursued legal action and during the three-month period ended March 31, 2003 the court ruled in favor of the landlord. The Company has not been informed of the amount of the final judgment, however, the Company believes such amount will not have a material adverse effect on the consolidated financial condition of the Company.

Interest expense for the three-month period ended March 31, 2003 decreased 177% to \$(14,206) from \$18,354 in 2002. Interest expense decreased primarily due to the reversal of accrued interest related to Kirlin Securities' deferred commission plan due to the termination of employment of certain registered representatives. To a lesser extent interest expense decreased as a result of a reduction of inventory positions purchased on margin and securities sold short, which are held at a clearing broker and charged interest. The Company seeks to minimize its cash balances and withdraws cash for operations from its trading accounts as needed. To the extent necessary, inventory positions are utilized as collateral for such withdrawals.

Other expenses for the three-month period ended March 31, 2003 decreased 64.3% to \$178,644 from \$500,209 in 2002 primarily as a result of no new accruals for customer arbitrations and reversal of prior accruals which arose due to the Company satisfying unpaid awards for less than the awarded amount and receipt of a promissory note for the partial reimbursement of two customer settlements. Shareholder administration expenses and franchise taxes decreased due to lower than expected expenses which resulted in lower incurred charges. Additionally, general office expenses have decreased due to the decrease in the number of employees, however, during February 2003 the Company entered into a new two year licensing agreement with an outside vendor to provide trade compliance monitoring support on all executed trades at a cost of approximately \$4,000 per month. The Company may terminate this agreement with sixty days written notice.

Income tax benefit for the three-month period ended March 31, 2003 was \$798,253 as compared to \$323,790 for the three-month period ended March 31, 2002. For the three-month period ended March 31, 2003 the valuation allowance related to Company's deferred tax assets related to its net operating loss carryforwards and other temporary differences was changed to approximately 79% from 100% as a result of events giving rise to greater expectation of a return to long-term profitability.

Net income of \$1,196,883 for the three-month period ended March 31, 2003 compares to net loss of \$659,006 for the three-month period ended March 31, 2002. This resulted primarily from the change in revenues and expenses discussed above.

Liquidity and Capital Resources

At March 31, 2003, approximately 64% of the Company's assets were comprised of cash and highly liquid securities.

Cash and cash equivalents amounted to \$3,887,980 at March 31, 2003 as compared to \$3,035,084 at December 31, 2002. This increase is reflective of the collection of a new annual maintenance fee on client accounts that was collected during March 2003.

Due from Clearing Brokers amounted to \$789,344 at March 31, 2003 as compared to \$559,303 at December 31, 2002. This 41.1% increase is primarily attributable to increased receivables related to agency commissions owed to the Company at the end of the quarter.

Securities Owned at March 31, 2003 were \$1,872,997 as compared to \$1,856,245 at December 31, 2002. This line item is basically unchanged, however, the increase in U.S. government and agency obligations held in inventory for resale to its customers was offset by the decrease in state and municipal obligations securities held in inventory with respect to the Company's syndicate activities.

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Rebate Receivable amounted to \$1,115,000 at March 31, 2003 as compared to \$964,000 at December 31, 2002. This 15.7% increase is reflective of the rebate the Company is entitled to receive from its clearing broker as provided in the clearing agreement. The clearing broker will rebate, in amounts and at dates specified in the agreement, 50% of the clearing fees and other items (as defined) up to a maximum of \$2,500,000. The rebate is supposed to be paid by the clearing broker in the amount of \$250,000 on March 31, 2003 and up to maximum installments of \$62,500 at the end of each subsequent calendar quarter through March 31, 2005, at which time the balance will be payable. The Company is

11

presently working with the clearing broker to receive the \$250,000 that was owed to the Company on March 31, 2003, which in turn will be paid to the clearing broker to satisfy the March 31, 2003 payment under the subordinated loan agreement.

Representative Loans at March 31, 2003 amounted to \$458,259 as compared to \$547,914 at December 31, 2002. This 16.4% decrease is reflective of the net change resulting from the disbursement of new loans provided to registered representatives as part of the Company's recruitment efforts net of the amortization, collections, and write-offs related to loans disbursed in the current and prior years. A majority of the loans will be forgiven based on the recipient's production or employment through a specific time period. The Company amortizes the principal amount of the loan over the performance period or the employment period, whichever is shorter.

Furniture, Fixtures and Leasehold improvements, net, at March 31, 2003, decreased to \$458,790 as compared to \$574,986 at December 31, 2002. This 20.2% decrease primarily results from the depreciation of fixed assets during the first quarter of 2003.

Deferred Tax Assets, net at March 31, 2003 amounted to \$815,659 as compared to \$0 at December 31, 2002. During the year the Company changed its valuation allowance to approximately 79% from 100% related to its deferred tax assets related to its net operating loss carryforwards and other temporary differences as a result of events giving rise to greater expectation of a return to long-term profitability. At March 31, 2003 the deferred tax assets amount to approximately \$3,900,000 and the recorded valuation allowance amounts to approximately \$3,100,000. If the Company continues to be profitable then it anticipates being able to use the entire deferred tax asset.

Other assets increased by 4.1% to \$663,747 at March 31, 2003, from \$637,924 at December 31, 2002. The increase is attributable to the increase in commissions due the Company related to the sale of unit investment trusts, the net increase in receivables related to three legal matters whereby the receivable that existed at December 31, 2002 related to one matter was satisfied and a new receivable was established for two other matters. The increase is also attributable to the increase in accrued interest related to fixed income security positions held in inventory, increase in mutual fund commissions that were collected entirely during April 2003, offset by a decrease in the rent deposit related to one of the Company's leases which was forfeited as part of the early termination of that lease.

Securities sold, not yet purchased amounted to \$81,501 at March 31, 2003 as compared to \$143,205 at December 31, 2002. Management monitors these positions on a daily basis and covers short positions when deemed appropriate.

Accrued compensation was \$1,952,937 at March 31, 2003 as compared to \$1,694,183 at December 31, 2002, a 15.3% increase. The revenues upon which

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commission income to registered representatives is based directly affect this line item, which was higher at the end of the current quarter as compared to 2002.

Accounts payable and accrued expenses at March 31, 2003 were \$2,848,113 as compared to \$2,269,672 at December 31, 2002. This 25.5% increase is primarily attributable to the collection in March 2003 of the annual maintenance fee charged to client accounts and the recordation on the Company's Statement of Financial Condition of an offsetting liability. The income related to the annual maintenance fee will be recognized monthly as the annual fee is amortized. The above increase is offset by a decrease in the accrued liability related to existing claims, arbitrations and unpaid settlements, which decreased due to the payment of some settlement amounts and the reversal of prior accruals due to the Company satisfying unpaid awards for less than the awarded amount. This line item also increased due to the rent accrual related to the Company's vacated office space in San Diego, which is described in the previous discussion regarding Professional Fees in Results of Operations. The increase is also attributable to the override payments to be made to the former owners of Princeton Securities, where the Company is required to pay an override on the commissions generated by the representatives directly hired as part of the transaction through March 2003. The final payment is expected to be made during May 2003, however, accrued amounts related to one of the former owners is being withheld due to a disagreement over amounts owed to the Company and its attorneys in relation to GMST World Market's arbitration. Accounts payable and

12

accrued expenses include a deposit collected by the Company during March 2003 under an engagement to underwrite an initial public offering of a bio-pharmaceutical Company, which was subsequently aborted. The Company is presently analyzing the expenses incurred related to this engagement, and any funds that remain after the deduction of such expenses will be returned. To a lesser extent this line item increased due to the increase in payables related to the Company's general business.

Subordinated liability at March 31, 2003 and December 31, 2003 amounted to \$2,500,000. During March 2002, Kirlin Securities received from its clearing broker a \$2,500,000 three-year subordinated loan and calls for payments over various periods of time during this three-year period. The Company is presently working with the clearing broker to pay the \$250,000 that was owed on March 31, 2003, which payment will be made from the funds received from the clearing broker under the rebate agreement.

The Company, as guarantor of its customer accounts to its clearing brokers, is exposed to off-balance-sheet risks in the event that its customers do not fulfill their obligations with the clearing brokers. In addition, to the extent the Company maintains a short position in certain securities, it is exposed to a further off-balance-sheet market risk, since the Company's ultimate obligation may exceed the amount recognized in the financial statements.

In July 2002, Kirlin Securities was notified by the NASD that it had made a preliminary determination to recommend that disciplinary action be brought against Kirlin Securities and three of its current or former employees, including Anthony Kirincic, President of the Company and Co-Chief Executive Officer of Kirlin Securities, as a result of the sale of certain fixed income securities to clients of Kirlin Securities from November 1995 to 1998. Certain of these securities were issued in \$250,000 denominations. The NASD informed Kirlin Securities that the potential violations of the NASD Conduct Rules and/or Federal securities laws relate to the following (all of which activity occurred prior to 1999): (i) sales of unregistered securities stemming from the sale of these securities in smaller denominations; (ii) placement of false and

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misleading advertising relating to these securities; (iii) charging of markups on the sale of the securities in excess of NASD policy allegedly in the amount of approximately \$1,420,000 and in violation of securities laws allegedly in the amount of approximately \$44,000; (iv) failure to maintain inventory sheets as distributed to certain employees in connection with the sale of the securities; and (v) failure to establish and enforce supervisory procedures to assure compliance with federal laws and NASD Rules to prevent the aforementioned potential violations. In March 2003 the NASD initiated this disciplinary action against Kirlin Securities and two of its employees seeking the imposition of sanctions, restitution and costs. The Company cannot predict the outcome of the disciplinary action at this time and is unable to determine whether this matter will have a material adverse effect on the consolidated financial condition of the Company

The Company's business involves substantial risks of liability, including exposure to liability under federal and state securities laws in connection with the underwriting or distribution of securities and claims by dissatisfied customers for fraud, unauthorized trading, churning, mismanagement and breach of fiduciary duty. The Company does not presently maintain an errors and omissions insurance policy insuring it against these risks. In the normal course of the Company's business, the Company from time to time is involved in claims, lawsuits and arbitrations brought by its customers and former employees. It is the opinion of management, based upon its evaluation of each of these matters and the reserves established by the Company, that the resolution of all claims presently pending will not have a material adverse effect on the consolidated financial condition of the Company

The Company believes its financial resources will be sufficient to fund the Company's operations and capital requirements for the foreseeable future. The Company, however, continues to explore the possibility of a financing to assist it in pursuing its plans for growth.

Consolidated Contractual Obligations and Lease Commitments

The table below summarizes information about our consolidated contractual obligations as of March 31, 2003 and the effects these obligations are expected to have on our consolidated liquidity and cash flow in future years. This table

13

does not include any projected payment amounts related to the Company's potential exposure to arbitrations and other legal matters.

	Total	2003	2004	2005
Equipment Lease obligations	\$ 208,517	\$ 122,551	\$ 51,906	\$ 22,614
Office Lease obligations	2,180,958	953,696	837,293	309,486
Employment contract obligations	4,366,833	816,500	782,000	755,000
	\$ 6,756,308	\$ 1,892,747	\$ 1,671,199	\$ 1,087,100
	\$ 6,756,308	\$ 1,892,747	\$ 1,671,199	\$ 1,087,100

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our investing and underwriting activities often involve the purchase, sale or short sale of securities as principal. Such activities subject our capital to significant risks from markets that may be characterized by relative illiquidity or may be particularly susceptible to rapid fluctuation in liquidity. Such market conditions could limit our ability to resell securities purchased or to purchase securities sold short. These activities subject our capital to significant risks, including market, credit counterparty and liquidity risks. Market risk relates to the risk of fluctuating values based on market prices without action on our part. Our primary credit risk is settlement or counterparty risk, which relates to whether a counterparty will fulfill its contractual obligations, such as delivery of securities or payment of funds. Liquidity risk relates to our inability to liquidate assets or redirect the deployment of assets contained in illiquid investments. In addition, our market and liquidity risks and risks associated with asset revaluation are increased because these risks for us are concentrated.

ITEM 4. CONTROLS AND PROCEDURES.

Within the 90-day period prior to the filing of this report, an evaluation of the effectiveness of the Company's disclosure controls and procedures was made under the supervision and with the participation of the Company's management, including the chief executive officer and chief financial officer. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

14

PART II: OTHER INFORMATION

ITEM 2: SALES OF UNREGISTERED SECURITIES

Date of Sale	Title of Security	Number Sold or forfeited	Consideration Received and Description of Underwriting or Other Discounts to Market Price Afforded to Purchasers	Exemption from Registration Claim
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1/2/03	Options to purchase Common Stock	8,992	Options granted under 1996 Stock Plan - no cash consideration received by the Company.	4(2)
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1/2/03	Options to purchase Common Stock	13,354	Options granted under 1996 Stock Plan - no cash consideration received by the Company.	4(2)
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ITEM 5: OTHER INFORMATION

On April 9, 2003, the Company was advised by Nasdaq that the Company was not in compliance with Marketplace Rule 4310(c)(2)(B), which requires the Company to have a minimum of \$2,500,000 in stockholders' equity or \$35,000,000 market value of listed securities or \$500,000 of net income from continuing operations for the most recently completed fiscal year or two of the three most recently completed fiscal years. On April 29, 2003 the Company submitted a letter to Nasdaq providing information regarding the financial situation of the Company and which concluded that the Company would report stockholders' equity in excess of \$2,500,000 at March 31, 2003.

On May 1, 2003, Nasdaq informed the Company that based on its review of this information, it had determined to grant the Company the ability to regain compliance by filing a Form 10-Q with the SEC on or before May 20, 2003 demonstrating compliance with all continued listing requirements set forth in the Nasdaq Marketplace Rules.

Based on the information provided in this Form 10-Q, the Company believes it has demonstrated compliance with the Marketplace Rules.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) None

(b) Reports on Form 8-K

None

15

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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Kirlin Holding Corp.

(Registrant)

Dated: May 15, 2003

By: /s/ Anthony J. Kirincic

Anthony J. Kirincic
President

Dated: May 15, 2003

By: /s/ Barry E. Shapiro

Barry E. Shapiro
Chief Financial Officer
(and principal accounting officer)

16

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Kirlin Holding Corp. (the "Company") on Form 10-Q for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: May 15, 2003

/s/ David O. Lindner

David O. Lindner
Chief Executive Officer

Dated: May 15, 2003

/s/ Barry E. Shapiro

Barry E. Shapiro

SECTION 302 CERTIFICATION PURSUANT TO
RULE 13a-14 AND 15d-14 UNDER
THE SECURITIES ACT OF 1934, AS AMENDED

I, David O. Lindner, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Kirlin Holding Corp.;
2. based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. the registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days of 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 to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. the registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal

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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.

Dated: May 15, 2003

/s/ David O. Lindner

David O. Lindner
Chief Executive Officer

18

SECTION 302 CERTIFICATION PURSUANT TO RULE 13a-14 AND 15d-14 UNDER THE SECURITIES ACT OF 1934, AS AMENDED

I, Barry E. Shapiro, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Kirlin Holding Corp.;
2. based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. the registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days of 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 to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to

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record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

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

Dated: May 15, 2003

/s/ Barry E. Shapiro

Barry E. Shapiro
Chief Financial Officer

19