

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 and  
- ----- Exchange Act of 1934 For the quarterly period ended December 31, 2000

OR

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 1-15799

GBI CAPITAL MANAGEMENT CORP.

-----  
(Exact Name of Registrant as Specified in its Charter)

Florida

65-0701248

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

1055 Stewart Avenue, Bethpage, New York

11714

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

Registrant's telephone number, Including Area Code: (516) 470-1000

Indicate by 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 ☒ No ☐

Indicate the number of shares outstanding of each of the Issuer's  
classes of common equity, as of the latest practicable date: At February 8,  
2001, Issuer had outstanding 18,806,612 shares of Common Stock, par value \$.0001  
per share.

PART I . FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

<TABLE>

<CAPTION>

GBI CAPITAL MANAGEMENT CORP. and SUBSIDIARIES  
Consolidated Statements of Financial Condition

	December 31, 2000	September 30, 2000
	----- (Unaudited)	-----
<S>	<C>	<C>
Assets		
Cash and cash equivalents	\$ 5,193,168	\$ 5,255,669
Receivable from brokers and dealers	8,579,276	21,507,788
Securities owned, at market value	2,381,971	3,513,865
Furniture, fixtures and leasehold improvements, at cost net of accumulated depreciation and amortization of \$3,093,018 and \$2,831,499 for December 31, 2000 and September 30, 2000 respectively.	4,113,284	4,166,744
Deferred tax asset	1,326,000	1,156,000
Investment in and receivable from affiliates	1,493,667	1,489,134
Other assets	3,772,805	2,330,803
Total assets	\$ 26,860,171	\$ 39,420,003
	=====	=====

Liabilities and Stockholders' Equity  
Liabilities:

Securities sold, not yet purchased, at market value	\$ 1,019,800	\$ 2,203,708
Income taxes payable	-	182,788
Accrued expenses and other liabilities	6,084,836	15,770,427
	-----	-----
Total liabilities	7,104,636	18,156,923
	-----	-----
Stockholders' equity:		
Common stock - \$.0001 par value;		
Authorized 100,000,000 shares, issued and outstanding		
18,806,612 shares.	1,881	1,881
Additional paid-in capital	7,531,763	7,531,763
Retained earnings	12,221,891	13,729,436
	-----	-----
Total stockholders' equity	19,755,535	21,263,080
	-----	-----
Total liabilities and stockholders' equity	\$ 26,860,171	\$ 39,420,003
	=====	=====

</TABLE>

See accompanying notes to financial statements.

2

GBI CAPITAL MANAGEMENT CORP. and SUBSIDIARIES  
Consolidated Statements of Operations

	For the Three Months Ended	
	December 31,	December 31,
	2000	1999
	-----	-----
	(Unaudited)	(Unaudited)
Revenues:		
Commissions and trading income	\$ 9,942,162	\$ 23,643,961
Interest and dividends, net	669,866	368,025
Underwriting fees	11,996	343,127
Other	111,159	43,092
	-----	-----
Total Revenues	10,735,183	24,398,205
	-----	-----
Expenses:		
Compensation and benefits	6,764,823	16,261,551
Brokerage, clearance and exchange fees	1,270,906	1,540,143
Communications	1,054,037	702,473
Occupancy and equipment	1,528,216	1,339,360
Professional fees	661,274	323,444
Business development	686,795	484,444
Other	1,385,562	1,250,879
	-----	-----
Total Expenses	13,351,613	21,902,294
	-----	-----
Income (loss) before provision (benefit)		
for income taxes	(2,616,430)	2,495,911
Income tax provision (benefit)	(1,108,885)	1,009,292
	-----	-----
Net Income (Loss)	\$ (1,507,545)	\$ 1,486,619
	=====	=====
Basic earnings per common share	\$ (0.08)	\$ 0.08
	=====	=====
Diluted earnings per common share	\$ (0.08)	\$ 0.08
	=====	=====

See accompanying notes to financial statements.

3

<TABLE>

GBI CAPITAL MANAGEMENT CORP. and SUBSIDIARIES  
Consolidated Statements of Changes in Stockholders' Equity  
<CAPTION>

	For the Three months ended December 31, 2000				
	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Total
<S>	<C>	<C>	<C>	<C>	<C>
Balance at September 30, 2000	18,806,612	\$ 1,881	\$ 7,531,763	\$ 13,729,436	\$ 21,263,080
Net loss	--	--	--	(1,507,545)	(1,507,545)
Balance at December 31, 2000	18,806,612	\$ 1,881	\$ 7,531,763	\$ 12,221,891	\$ 19,755,535

</TABLE>

See accompanying notes to financial statements.

<TABLE>

GBI CAPITAL MANAGEMENT CORP. and SUBSIDIARIES  
Consolidated Statement of Cash Flows  
<CAPTION>

	Three months ended December 31,	
	2000 (Unaudited) <C>	1999 (Unaudited) <C>
<S>		
Operating activities:		
Net (loss)/income	\$ (1,507,545)	\$ 1,486,619
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	261,519	151,408
Deferred taxes	(170,000)	(167,206)
Decrease (increase) in operating assets:		
Receivable from brokers and dealers	12,928,512	(6,201,384)
Securities owned, at market value	1,131,894	(4,054,863)
Other assets	(1,442,003)	(312,611)
(Decrease) increase in operating liabilities:		
Securities sold, not yet purchased	(1,183,908)	4,769,698
Income taxes payable	(182,788)	463,165
Accrued expenses and other liabilities	(9,685,590)	3,881,769
Net cash provided by operating activities	150,091	16,595
Investing activities:		
Purchase of office furniture, equipment and leasehold improvements	(208,059)	(268,049)
Investment in affiliate	(4,533)	--
Syndication costs	--	5,038
Net cash used in investing activities	(212,592)	(273,087)
Net decrease in cash	(62,501)	(256,492)
Cash and cash equivalents at beginning of period	5,255,669	485,370
Cash and cash equivalents at end of period	\$ 5,193,168	\$ 228,878

Supplemental disclosure or cash flow information

Cash paid during the period for:

Interest	\$	1,048,450	\$	874,429
Income Taxes	\$	578,031	\$	709,435

</TABLE>

See accompanying notes to financial statements.

GBI CAPITAL MANAGEMENT CORP. and SUBSIDIARIES  
Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of GBI Capital Management Corp, and its wholly owned subsidiaries, GBI Capital Partners Inc., formerly Gaines, Berland Inc. ("GBI Capital") and GBI Fund Management Corp. (the general partner of the GBI 1500 Focus Fund L.P., a private investment partnership formed in August 1999), and GBI Capital's wholly owned subsidiary, GBI Trading Corp. ("GBI Trading") (a development stage company), (collectively the "Company"). GBI Trading was incorporated in February 1999 and GBI Fund Management Corp. was incorporated in August 1999.

On August 24, 1999 GBI Capital Management Corp., formerly known as Frost Hanna Capital Group, Inc., acquired all of the outstanding common stock of GBI Capital. For accounting purposes, the acquisition has been treated as a recapitalization of GBI Capital with GBI Capital as the acquirer (reverse acquisition). The historical financial statements prior to August 24, 1999 are those of GBI Capital. The Company has changed its fiscal year end to September 30th. The Company's Statement of Operations, Statements of Changes in Stockholders Equity, and Statement of Cash Flows are for the period October 1, 2000 to December 31, 2000.

GBI Capital is a broker-dealer registered with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers, Inc. GBI Capital acts as an introducing broker, market maker, underwriter and trader for its own account.

GBI Capital does not carry accounts for customers or perform custodial functions related to customers' securities. GBI Capital introduces all of its customer transactions, which are not reflected in these financial statements, to its clearing broker, which maintains the customers' accounts and clears such transactions. Additionally, this clearing broker provides the clearing and depository operations for GBI Capital'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 broker, as GBI Capital has agreed to indemnify the clearing broker for any resulting losses.

At December 31, 2000, all of the securities owned and securities sold, not yet purchased, and the amount receivable from clearing broker reflected on the consolidated statement of financial condition are security positions with and amounts due from this clearing broker.

The Company maintains cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash with respect to these cash balances.

Securities transactions, commission revenue and commission expenses are recorded on a trade-date basis. Unrealized gains and losses on securities transactions are included in trading income in the consolidated statement of operations.

The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America 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. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended September 30, 2000, contained in its Annual Report on Form 10-K. In the opinion of management of the Company, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The operations for the three months ended December 31, 2000 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2001.

Furniture and fixtures are depreciated on a straight-line basis over the economic useful lives of the assets, not exceeding seven years. Leasehold improvements are amortized over the lesser of their economic useful lives or the expected term of the related lease.

Management does not believe that any recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying consolidated financial statements.

## 2. INCOME TAXES:

The Company files consolidated federal income tax returns, but each constituent entity files separate state income tax returns. The provision (benefit) for income taxes differs from the amount of income taxes determined by applying the federal statutory rates principally because of the effect of state taxes and permanent differences.

## 3. NET CAPITAL REQUIREMENT

As a registered broker-dealer, GBI Capital is subject to the SEC's Uniform Net Capital Rule 15c3-1 ("Net Capital Rule"), which requires the maintenance of minimum net capital. GBI Capital computes its net capital under the aggregate indebtedness method permitted by rule 15c3-1, which requires that GBI Capital maintain minimum net capital, as defined, of the greater of 6-2/3% of aggregate indebtedness, as defined, or \$100,000, or an amount determined based on the market price and number of securities in which GBI Capital is a market-maker, not to exceed \$1,000,000.

At December 31, 2000, GBI Capital had net capital, as defined, of \$3,413,577, which exceeded minimum net capital requirements of \$1,000,000 by \$2,413,577.

## 4. COMMITMENTS AND CONTINGENCIES

GBI Capital has been named as defendant in certain legal actions in the ordinary course of business. At December 31, 2000 and September 30, 2000, GBI Capital had accrued \$2,206,100 and \$2,348,000, respectively, for settlement of all such legal proceedings.

## 5. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share ("EPS"):

	Three months ended December 31,	
	2000	1999
Numerator for basic and diluted EPS:		
Net income (loss)	\$ (1,507,545)	\$ 1,486,619
	=====	=====
Denominator for basic EPS	18,806,612	18,806,612
Denominator for diluted EPS	18,806,612	18,806,612
	=====	=====
Basic EPS	(0.08)	0.08
	=====	=====
Diluted EPS	(0.08)	0.08
	=====	=====

## 6. ACCRUED EXPENSES

At December 31, 2000 GBI Capital had accrued expenses of \$6,084,836, of which \$1,450,891 was for commissions and salaries payable, \$2,206,100 was for settlements and \$1,004,930 was for deferred rent payable.

## 7. SUBSEQUENT EVENTS

On February 8, 2001, the Company entered into a Stock Purchase Agreement with New Valley Corporation ("New Valley"), Ladenburg Thalmann Group Inc. ("LTGI"), a wholly-owned subsidiary of New Valley, Berliner Effektengesellschaft AG ("Berliner") and Ladenburg Thalmann & Co. Inc. ("Ladenburg"), a registered broker-dealer whose common stock is owned by

New Valley and Berliner. Pursuant to the Stock Purchase Agreement, the Company will purchase all of the outstanding stock of Ladenburg from New Valley and Berliner in exchange for (i) 18,181,819 shares of the Company's newly-issued Common Stock, (ii) \$10,000,000 principal amount of the Company's convertible promissory notes and (iii) \$10,000,000 in cash. In connection with this transaction, certain of the Company's current principal stockholders also will sell a portion of the Company's common stock owned by them to LTGI for cash. As a result of these transactions, Ladenburg will become a wholly-owned subsidiary of the Company and New Valley will acquire beneficial ownership of approximately 50.1% of the Company's outstanding common stock. The transactions are subject to certain closing conditions, including approval of the transaction by the Company's stockholders. The transactions will be more fully described in a Current Report on Form 8-K to be filed by the Company shortly. The convertible promissory notes to be issued by the Company to the sellers mature on December 31, 2005. The Company will finance the cash portion of the purchase price by issuing \$10,000,000 principal amount of similar, but not identical, convertible promissory notes to a third party.

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 Securities and Exchange Commission, the words or phrases "will likely result," "management expects," or "the Company expects," "will continue," "is anticipated," "estimated" 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 and uncertainties include those set forth in the Company's definitive Proxy Statement relating to a special meeting of Stockholders held on August 23, 1999. 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.

### Results of Operations

Three Months Ended December 31, 2000 vs. Three Months Ended December 31, 1999

#### Revenues

Commissions and trading income for the three months ended December 31, 2000 decreased 58% to \$9,942,162 from the three months ended December 31, 1999. This decrease is primarily due to a decrease in trading volume, which reflected deteriorating market conditions.

Interest and dividend income, net for the three months ended December 31, 2000 increased 82%, to \$669,866 from the comparable period in 1999. The increase is primarily due to rising interest rates and an increase in the percentage of margin interest our clearing broker shares with us.

Underwriting fees for the three months ended December 31, 2000 decreased 97% to \$11,996 from \$343,127 during the comparable period in 1999. The decrease is the result of our not participating in any underwritten public offering as a co-manager during the 2000 period, as opposed to our participation as a co-manager in three public offerings for the comparable period in 1999.

Other revenues for the three months ended December 31, 2000 increased 158% to \$111,159 from the three months ended December 31, 1999. This increase is primarily due to an insurance claim for business interruption, which was settled in November 2000 and management fees from the 1500 Focus Fund.

#### Expenses

Employee compensation and benefits for the three months ended December 31, 2000 decreased 58%, to \$6,764,823 from the comparable period in 1999. The decrease is primarily attributable to the decrease in revenues since employee compensation to the Company's traders and registered representatives is directly related to certain components of revenue. The three months ended December 31, 2000 had no bonus accruals as compared to \$825,000 accrued and \$490,000 paid for the comparable period in 1999.

Brokerage, clearance and exchange fees for the three months ended December 31, 2000 decreased 17.5%, to \$1,270,906, from the comparable period in 1999 as a result of lower ticket volume and reduced ticket charges.

Communications expense for the three months ended December 31, 2000

increased 50%, to \$1,054,037, from the comparable period in 1999. This increase is a result of the increase in registered representatives in Bethpage and the New York City office and the rollout of computers to every registered representative, resulting in a 79% increase in news services.

8

Occupancy and equipment costs for the three months ended December 31, 2000 increased 14.1%, to \$1,528,216, from the comparable period in 1999. This increase is primarily a result of an increase in depreciation expense attributed to the purchase of additional computer equipment.

Professional fees for the three months ended December 31, 2000 increased 104.5%, to \$661,274, from the comparable period in 1999. This increase is due to higher legal and consulting fees.

Business development costs for the three months ended December 31, 2000 increased 41.8% to \$686,795, from the comparable period in 1999. This increase is due to an increase in recruiting expenses.

Other expenses for the three months ended December 31, 2000 increased 10.8% to \$1,385,562, from the corresponding period in 1999. This increase is primarily a result of an increase in bad debt expense.

Income tax benefit for the three months ended December 31, 2000 was \$1,108,885 as compared to the income tax provision of \$1,009,292 for the three months ended December 31, 1999, which was consistent with the decrease in income before this income tax benefit.

Net loss of \$1,507,545 for the three months ended December 31, 2000, compares to net income of \$1,486,619 for the three months ended December 31, 1999. This resulted primarily from the decrease in revenues offset by decreases in expenses as discussed above.

#### Liquidity and Capital Resources

Approximately 60.1% of the Company's assets at December 31, 2000 are highly liquid, consisting primarily of cash and cash equivalents, securities inventories, and receivables from other broker-dealers, all of which fluctuate, depending upon the levels of customer business and trading activity. Receivables from broker-dealers, which are primarily from the Company's clearing broker, turn over rapidly. As a securities dealer, we may carry significant levels of securities inventories to meet customer needs. Our inventory of market-making securities is readily marketable; however, holding large blocks of the same security may limit liquidity and prevent realization of full market value for the securities. A relatively small percentage of our total assets are fixed. The total assets or the individual components of total assets may vary significantly from period to period because of changes relating to customer demand, economic and market conditions, and proprietary trading strategies.

The Company's brokerage subsidiary, GBI Capital Partners Inc., is subject to net capital rules of the NASD and the SEC. Therefore, it is subject to certain restrictions on the use of capital and its related liquidity. GBI Capital's net capital position as of December 31, 2000, was \$3,413,577, which was \$2,413,577, in excess of its net capital requirement.

The Company's overall capital and funding needs are continually reviewed to ensure that its capital base can support the estimated needs of its business units. These reviews take into account business needs as well as regulatory capital requirements of the subsidiary. Based upon these reviews, management believes that the Company's capital structure is adequate for current operations.

On February 8, 2001, the Company entered into a Stock Purchase Agreement with New Valley Corporation ("New Valley"), Ladenburg Thalmann Group Inc. ("LTGI"), a wholly-owned subsidiary of New Valley, Berliner Effktengesellschaft AG ("Berliner") and Ladenburg Thalmann & Co. Inc. ("Ladenburg"), a registered broker-dealer whose common stock is owned by New Valley and Berliner. Pursuant to the Stock Purchase Agreement, the Company will purchase all of the outstanding stock of Ladenburg from New Valley and Berliner in exchange for (i) 18,181,819 shares of the Company's newly-issued Common Stock, (ii) \$10,000,000 principal amount of the Company's convertible promissory notes and (iii) \$10,000,000 in cash. In connection with this transaction, certain of the Company's current principal stockholders also will sell a portion of the Company's common stock owned by them to LTGI for cash. As a result of these transactions, Ladenburg will become a wholly-owned subsidiary of the Company and New Valley will acquire beneficial ownership of approximately 50.1% of the Company's outstanding common stock. The transactions are subject to certain closing conditions, including approval of the transaction by the Company's stockholders. The transactions will be more fully described in a Current Report on Form 8-K to be filed by the Company shortly. The convertible promissory notes to be issued by the Company to the sellers mature on December 31, 2005. The Company will finance the cash portion of the purchase price by issuing \$10,000,000 principal amount of similar, but not identical, convertible promissory notes to a third party.

The Company's brokerage subsidiary, as guarantor of its customer accounts to its clearing broker, is exposed to off-balance-sheet risks in the event that its customers do not fulfill their obligations with the clearing broker. 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.

9

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

GBI Capital has been, and continues to be the subject of numerous civil actions and arbitrations arising out of customer complaints relating to its activities as a broker-dealer in securities, as an employer and as a result of other business activities. In general, the cases involve various allegations that employees of GBI Capital had mishandled customer accounts. At December 31, 2000, we estimate that the total amount sought from GBI Capital in pending and threatened claims is approximately \$9,301,000. It is our opinion, based upon our historical experience and the reserves already established by us, that the resolution of all claims presently pending will not have a material adverse effect on the consolidated financial condition of our company.

### ITEM 2. SALES OF UNREGISTERED SECURITIES

<TABLE>  
<CAPTION>

Date of Sale	Title of Security	Number Sold	Consideration Received and Description of Underwriting or Other Discounts to Market Price Afforded to Purchasers	Exemption from Registration Claimed	If Option, Warrant or Convertible Security, Terms of Exercise or Conversions
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
<S>	<C>	<C>	<C>	<C>	<C>
12/20/00	Options to purchase Common Stock	60,000	Options granted under 1999 Performance Equity Plan; no cash consideration received by Company until exercise	4(2)	100% exercisable immediately at an exercise price of \$2.125 per share and which all expire 12/19/10

</TABLE>

10

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

- (a) Exhibits  
None.
- (b) Reports on Form 8-K  
None.

11

### 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.

GBI Capital Management Corp.  
-----  
(Registrant)

Dated: February 14, 2001

By: /s/ Joseph Berland  
-----  
Joseph Berland



Chairman of the Board and  
Chief Executive Officer

By: /s/ Diane Chillemi

-----  
Diane Chillemi  
Chief Financial Officer