
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997

COMMISSION FILE NUMBER 0-22563

PC411, INC.
(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

DELAWARE 95-4463937
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) (I.R.S. EMPLOYER IDENTIFICATION NUMBER)

9800 S. LA CIENEGA BLVD.
INGLEWOOD, CA 90301
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(310) 645-1114
(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

CHECK WHETHER THE ISSUER (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
--- ---

AS OF AUGUST 8, 1997, THERE WERE OUTSTANDING 2,972,500 SHARES OF THE ISSUER'S COMMON STOCK, \$.01 PAR VALUE.

PC411, INC.
QUARTERLY REPORT ON FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

PAGE

Item 1. Financial Statements (Unaudited):

Balance Sheets as of June 30, 1997 and December 31, 1996 (Audited).....	3
Statements of Operations for the six months ended June 30, 1997 and 1996.....	4
Statement of Stockholders' Equity for the six months ended June 30, 1997.....	5

Statements of Cash Flows for the six months ended June 30, 1997 and 1996.....	6
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Notes to the Quarterly Consolidated Financial Statements...	7
---	---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10
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PART II. OTHER INFORMATION

Item 5. Other Information.....	16
Item 6. Exhibits and Reports on Form 8-K.....	16
SIGNATURE.....	17

2

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEETS

<TABLE>
<CAPTION>

	June 30, 1997	December 31, 1996
	(Unaudited)	(Audited)
<S>	<C>	<C>
ASSETS:		
Current assets:		
Cash and cash equivalents.....	\$ 779,744	\$ 8,605
Short-term investments.....	4,847,779	--
Accounts receivable.....	--	10,947
Prepaid expenses.....	42,995	192,865
	-----	-----
Total current assets.....	5,670,518	212,417
	-----	-----
Property and equipment, net.....	119,031	132,972
	-----	-----
Total assets.....	<u>\$ 5,789,549</u>	<u>\$ 345,389</u>

CURRENT LIABILITIES:

Accrued expenses.....	\$ 319,700	\$ 192,992
Deferred revenue.....	53,130	25,387
Related party demand loan payable	--	327,065
	-----	-----
Total current liabilities.....	372,830	545,444
	-----	-----

Commitments and contingencies.....	--	--
------------------------------------	----	----

STOCKHOLDERS' EQUITY (DEFICIT):

Preferred stock, Series A \$.01 par value. Authorized 10,000 shares; issued and outstanding 0 and 1,820 shares at June 30, 1997 and December 31, 1996, respectively, liquidation value of \$550 per share.....	--	18
Common Stock, \$.01 par value. Authorized 10,000 shares; issued and outstanding 2,972,500 and 4,240 at June 30, 1997 and December 31, 1996, respectively.....	29,725	42

Additional paid-in capital.....	7,409,809	1,406,427
Deficit accumulated during the development stage.....	(2,022,815)	(1,606,542)
	-----	-----
Net stockholders' equity (deficit).....	5,416,719	(200,055)
	-----	-----
Total liabilities and stockholders' equity (deficit).....	\$ 5,789,549	\$ 345,839
	=====	=====

</TABLE>

See accompanying Notes to Financial Statements

3

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended		Period From
	June 30,	June 30,	June 30,	June 30,	December 29, 1993
	1997	1996	1997	1996	(Date of Inception)
	to June 30, 1997				
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Revenues.....	\$ 50,491	\$ 8,197	\$ 92,041	\$ 19,753	\$ 160,452
Cost and expenses:					
Cost of revenues.....	40,865	14,268	71,524	27,510	269,064
Research and development.....	16,796	74,366	24,639	150,525	570,772
Sales and marketing.....	50,321	5,870	66,176	19,305	209,518
General and administrative.....	156,788	87,411	286,646	212,992	948,943
	-----	-----	-----	-----	-----
	264,770	181,915	448,985	410,332	1,998,297
	-----	-----	-----	-----	-----
Operating loss.....	(214,279)	(173,718)	(356,944)	(390,579)	(1,837,845)
	-----	-----	-----	-----	-----
Other income (expense):					
Interest and other income.....	35,473	804	35,473	3,749	86,291
Interest expense.....	(36,256)	--	(94,002)	--	(268,861)
	-----	-----	-----	-----	-----
Other income (expense).....	(783)	804	(58,529)	3,749	(182,570)
	-----	-----	-----	-----	-----
Loss before income taxes.....	(215,062)	(172,914)	(415,473)	(386,830)	(2,020,415)
Income taxes.....	--	--	800	800	2,400
	-----	-----	-----	-----	-----
Net loss.....	(215,062)	(172,914)	(416,273)	(387,630)	\$ (2,022,815)
				=====	
Dividends on preferred shares - undeclared.....	(192,703)	--	(296,953)	--	
	-----	-----	-----	-----	
Net loss applicable to common stock.....	\$ (407,765)	\$ (172,914)	\$ (713,226)	\$ (387,630)	
	=====	=====	=====	=====	

Net loss per share.....	\$ (.16)	\$ (.24)	\$ (.34)	\$ (.53)
Shares used in computing net loss per share.....	2,472,427	732,390	2,099,075	732,390

</TABLE>

See accompanying Notes to Financial Statements

4

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 1997
(UNAUDITED)

<TABLE>
<CAPTION>

	Preferred Stock	Common Stock	Additional paid-in capital	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1996.....		\$ 18	\$ 42	\$ 1,406,427	\$ (1,606,542)	\$ (200,055)
Net loss.....	--	--	--	(416,273)	(416,273)	
Conversion of preferred stock to common stock.....		(18)	86	(68)	--	--
Stock split.....	--	22,096	(22,096)	--	--	
Contribution of common stock to company.....	--	(6,324)	6,324	--	--	
Issuance of stock to legal counsel.....	--	600	(600)	--	--	
Sale of common stock in initial public offering.....	--	13,225	5,871,775	--	5,885,000	
Payment of preferred dividend.....	--	--	(171,953)	--	(171,953)	
Sale of warrants to related party.....	--	--	250,000	--	250,000	
Interest component of stock option granted.....	--	--	70,000	--	70,000	
Balance, June 30, 1997.....	\$ --	\$ 29,725	\$ 7,409,809	\$ (2,022,815)	\$ 5,416,719	

</TABLE>

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

	Six Months Ended		Period From
	June 30, 1997	June 30, 1996	December 29, 1993 (Date of Inception) to June 30, 1997
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss.....	\$ (416,273)	\$ (387,630)	\$ (2,022,815)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation.....	19,919	19,002	86,392
Interest component of stock options granted.....		70,000	-- 70,000
Amortization of discount on loan payable.....		--	-- 160,940
Changes in assets and liabilities:			
Accounts receivable.....	10,947	--	
Prepaid expenses.....	149,870	13,000	(42,995)
Accrued expenses.....	126,708	--	319,700
Deferred revenues.....	27,743	\$ --	53,130
Cash used in operating activities.....	(11,086)	(355,628)	(1,375,648)
Cash flows from investing activities:			
Purchase of short-term investments.....	(4,847,779)	--	(4,847,779)
Acquisition of property and equipment.....	(5,978)	(7,569)	(205,423)
Cash flows used in investing activities.....	(4,853,757)	(7,569)	(5,053,202)
Cash flows from financing activities:			
Increase in (repayment of) loan payable.....	(327,065)	37,500	--
Issuance of preferred stock.....	--	--	1,001,000
Shareholder cash contribution.....	--	--	92,047
Issuance of common stock.....	5,885,000	--	6,037,500
Payment of preferred dividends.....	(171,953)	--	(171,953)
Sale of warrants.....	250,000	--	250,000
Cash flows provided from financing activities.....	5,635,982	37,500	7,208,594
Net increase (decrease) in cash.....	771,139	(325,697)	779,744
Cash and cash equivalents at beginning of period.....	8,605	370,827	--
Cash and cash equivalents at end of period.....	\$ 779,744	\$ 45,130	\$ 779,744

</TABLE>

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

(1) BUSINESS AND ORGANIZATION

PC411, Inc. was incorporated in Delaware on December 29, 1993. The Company provides an on-line service that transmits name, address, telephone number and other related information digitally to users of personal computers.

INITIAL PUBLIC OFFERING

On May 21, 1997, the Company completed an initial public offering ("IPO") of 1,322,500 units (including 172,500 units from the exercise of the Underwriter's over allotment option), each unit consisting of one share of Common Stock and one Redeemable Class A Warrant to purchase a share of Common Stock. The units were sold for \$5.75 each and the Company received, after expenses of the IPO, approximately \$6 million in net proceeds. Immediately prior to the IPO, the then outstanding 12,866 shares of Common Stock were converted into 2,222,390 shares of Common Stock pursuant to a 172.7336-for-1 stock split. Certain stockholders contributed 632,390 shares to the Company resulting in 1,590,000 shares outstanding. In addition, the Company issued an additional 60,000 shares to its legal counsel in connection with services rendered for the IPO. As a result of the foregoing, at June 30, 1997 the Company had 2,972,500 shares outstanding.

(2) PRINCIPLES OF REPORTING

The financial statements of the Company as of June 30, 1997 presented herein have been prepared by the Company and are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of June 30, 1997 and the results of operations and cash flows for all periods presented have been made. Results for the interim periods are not necessarily indicative of the results for the entire year.

These financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1996 included in the Company's Registration Statement on Form SB-2, as amended (No. 333-21545).

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

STOCK OPTIONS

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock options. In 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation", which, if fully adopted, changes the methods of recognition of cost on certain stock options.

SHORT-TERM INVESTMENTS

The Company's short-term investments comprise readily marketable debt securities with remaining maturities of more than 90 days at the time of purchase. The Company has classified all of its short-term investments as available for sale under the provisions of Statement of Financial Accounting Standards 115, "Accounting for Certain Investments in Debt and Equity Securities". Available for sale securities are stated at fair value with unrealized gains and losses included in stockholders' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income.

As of June 30, 1997, the Company had approximately \$1.9 million in U.S. Government Obligations and approximately \$2.9 million in commercial paper and bonds. The fair value of these short-term investments approximated their amortized costs and, accordingly, no unrealized gains or losses are included in stockholders' equity.

(3) RELATED PARTY TRANSACTIONS

The Company entered into a Loan and Security Agreement, dated as of June 27, 1996, as amended (the Loan Agreement), with New Valley Corporation ("New Valley"), an indirect majority owner of the Company's shares of Common Stock, pursuant to which New Valley agreed to provide the Company, in its sole and absolute discretion, with up to \$750,000 in financing. Amounts advanced under the Loan Agreement were due on demand and bore interest at 12% per annum. In May 1997, the Company issued to New Valley 1,000,000 Redeemable Class A Warrants at the IPO price of \$.25 per warrant in satisfaction of \$250,000 of indebtedness under the Loan Agreement and the remaining balance due under the Loan Agreement of \$447,064 was satisfied out of the net proceeds of the IPO.

In January 1997, the Company granted to Direct Assist Holding Inc., a wholly-owned subsidiary of New Valley, options to acquire 500,000 shares of Common Stock at \$5.75 per share, which fully vested upon the completion of the IPO. Such options were issued in connection with services provided on behalf of the Company's IPO, for Preferred Stock equity placement by New Valley, and for the Loan Agreement provided to the Company by New Valley. For financial reporting purposes, the Company has recorded \$125,000 of the value assigned to these options as a dividend on Preferred Stock for the period January 1, 1997 through May 22, 1997. In addition, the Company has recorded imputed interest expense of \$70,000 arising from the issuance of such options during the period from January 1, 1997 through May 22, 1997.

(4) STOCK OPTION PLAN

The Company has a stock option plan, "1997 Stock Option Plan" (the "1997 Plan"). The 1997 Plan provides for the grant of options to purchase the Company's stock to the employees of the Company. Subject to certain limitations under the 1997 Plan, the number of awards, the terms and conditions of any award granted thereunder (including, but not limited to, the exercise price, grant price or purchase price) are at the discretion of the Board of Directors. The Board of Directors had set aside 750,000 shares of the Company's common stock for issuance under the 1997 Plan. In January 1997, the Company's Board of Directors authorized the grant of 404,000 stock options at an exercise price of \$4.40 under the 1997 Plan. One third of such options vested upon the completion of the IPO and one third will vest at the end of each of the first and second years thereafter. When granted, the Company determined the fair market value of each of the Company's shares to be \$4.40, post-stock split; accordingly, no compensation expense was recognized for these options. In April and May 1997, an aggregate of 102,000 stock options were granted at an exercise price of \$5.50 per share, of which 15,060 became exercisable on the completion of the IPO. All stock options under the 1997 Plan are subject to an eighteen month lock-up agreement with the underwriter of the IPO which expires November 1998.

Stock options issued in 1995 and 1996 under a 1994 stock option plan which was terminated in 1997, vest over a three-year period and have an exercise price of \$11.50 per share. At June 30, 1997, 3,455 of the granted options were outstanding and exercisable.

Additionally, in connection with its IPO, the Company granted to the underwriter of the offering options to purchase 73,600 units, at the exercise price of \$9.49 per unit. Each unit consists of one share of Common Stock and one warrant to purchase an additional share at the price of \$6.10.

In addition to the options issued in connection with the stock option plans, the Company has granted other parties certain stock options as described in Note 3.

(5) PREFERRED STOCK

The Company has the authority to issue 10,000 shares of Preferred Stock, which may be issued from time to time in one or more series. In May 1995, the Company sold and issued 1,820 shares of Series A Cumulative Convertible Preferred Stock, \$.01 par value. Dividends at an annual rate of \$55 per share on the Series A Preferred Stock were cumulative from the date of original issue and are payable annually in arrears, when and as declared by the Company's Board of Directors.

On January 29, 1997, all 1,820 outstanding shares of Preferred Stock were converted into 8,626 shares (1,490,000 shares after stock split) of Common Stock, and the cumulative dividends on the Preferred Stock of \$171,953 were subsequently declared and paid on May 22, 1997 out of the net proceeds of the IPO.

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

The following discussion and analysis of the Financial Condition and Results of Operations of the Company should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the notes thereto included in the

Company's Registration Statement on Form SB-2 (No. 333-21545) relating to its initial public offering, which was completed in May 1997.

OVERVIEW

The Company currently provides an on-line electronic directory assistance service that gives its customers access to over 110 million U.S. and Canadian residence and business telephone numbers, addresses and ZIP codes. The PC411 service is available on a direct-dial basis with a personal computer, a modem, and either the Company's proprietary, copyrighted software program, PC411 FOR WINDOWS, or an Internet browser. The PC411 service is available over the Internet at the address [HTTP://WWW.PC411.COM](http://WWW.PC411.COM). The Company was a development stage enterprise through June 30, 1997. Effective July 1, 1997, the Company is no longer considered a development stage enterprise as significant revenues are being generated and the raising of capital has been completed. Since its inception in December 1993, the Company has devoted substantially all of its expenditures (approximately \$2 million through June 30, 1997) to the development of the PC411 service. The Company introduced the first version of the PC411 service in December 1994.

Given its limited operating history, the Company and its prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the new and rapidly evolving markets for on-line and internet services. To address these risks, the Company must, among other things, continue to respond to competitive developments, attract, retain and motivate qualified personnel, implement and successfully execute its sales and marketing strategy, create and distribute a version of PC411 FOR WINDOWS for other operating systems, develop relationships with third parties for purposes of general distribution and specific industry penetration and upgrade its technologies and services. There can be no assurance that the Company will be successful in addressing such risks.

The limited operating history of the Company makes the prediction of future results of operations difficult or impossible. The Company believes that period to period comparisons of its operating results for any period should not be relied upon as an indication of future performance. The Company currently expects to significantly increase its operating expenses as it builds its sales and marketing staff, increases product development spending, and invests in infrastructure. As a result, the Company expects to continue to incur significant losses on a quarterly and annual basis for the foreseeable future.

In addition, the Company does not have historical financial data for any significant period of time on which to base planned operating expenses. The Company's expense levels are based in part on its expectations concerning future revenue and to a large extent are fixed. Quarterly revenues and operating results depend substantially upon signing up new customers and retaining such customers which are difficult to forecast accurately. The Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall, and any significant shortfall in revenue in relation to the Company's expectations would have an immediate adverse effect on the Company's business, results of operations and financial condition. In addition, the Company currently expects to increase significantly its operating expenses as it builds its sales and marketing staff, increases product

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

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

development spending, and invests in infrastructure. To the extent that such expenses precede or are not subsequently followed by increased revenues, the Company's business, results of operations and financial condition will be materially and adversely affected.

The Company licenses its database and pays a percentage of revenues earned from the display of the listing data, with minimum quarterly payments. The Company typically charges its customers a registration fee and then on a per use basis, or an annual subscription fee. The Company has entered into distribution agreements with three computer equipment manufacturers and one modem manufacturer, pursuant to which PC411 FOR WINDOWS will be installed on a computer's hard drive or a copy of PC411 FOR WINDOWS will be included with the purchase of a modem. The Company pays a distribution fee to the three computer equipment manufacturers and one modem manufacturer for the distribution of PC411 FOR WINDOWS either based upon the number of new customers that sign up for the PC411 service or the revenues that such new customers generate. Although the Company has experienced revenue growth in recent months due to these bundling agreements, there can be no assurance that revenues of the Company will continue to increase, that revenues will continue at their current level, that the Company will be able to maintain these arrangements, or that the Company will enter into additional bundling agreements with other third parties. The Company has recently been notified by Sony that as of June 1997 it will no longer include in its new releases products, such as PC411 FOR WINDOWS, which require users to pay for services. Sony accounted for less than 10% of the Company's customers during the six months ended June 30, 1997.

The Company's operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside the Company's control. These factors include the level of usage of the Internet, demand for Internet advertising, the continued growth of private intranets, the amount and timing of capital expenditures and other costs relating to the expansion of the Company's operations, the introduction of new products or services by the Company or its competitors, pricing changes in the industry, technical difficulties with respect to the use of the PC411 service, general economic conditions and economic conditions specific to on-line services and the Internet. As a strategic response to changes in the competitive environment, the Company may from time to time make certain pricing, service or marketing decisions that could have a material adverse effect on the Company's business, results of operations and financial condition.

INITIAL PUBLIC OFFERING

On May 21, 1997, the Company completed an initial public offering ("IPO") of 1,322,500 units (including 172,500 units from the exercise of the Underwriter's over allotment option), each unit consisting of one share of Common Stock and one Redeemable Class A Warrant to purchase a share of Common Stock. The units were sold for \$5.75 each and the Company received, after expenses of the IPO, approximately \$6.1 million in net proceeds. Immediately prior to the IPO, the then outstanding 12,866 shares of Common Stock were converted into 2,222,390 shares of Common Stock pursuant to a 172.7336-for-1 stock split. Certain stockholders contributed 632,390 shares to the Company resulting in 1,590,000 shares outstanding. In addition, the Company issued an additional 60,000 shares to its legal counsel in connection with services rendered for the IPO. As a result of the foregoing, at May 23, 1997 the Company had 2,972,500 shares outstanding.

11

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

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

RESULTS OF OPERATIONS

REVENUES. The Company's revenues have been derived from registration fees and usage charges for the modem dial-up PC411 service. Revenues are recognized over the period in which the related services are to be provided. Revenues for the three months and six months ended June 30, 1997 were \$50,491 and \$92,041, respectively, compared to \$8,197 and \$19,753 for the same periods in the prior year. The increase in revenues were due primarily to the bundling arrangements

with IBM and U.S. Robotics.

COST OF REVENUES. Cost of revenues consists primarily of the cost of data and the distribution fees paid to IBM and U.S. Robotics. The Company's contract for the listing data provides for a specified percentage of revenues that the Company generates from the distributing the data, with minimum quarterly payments. To date, the Company has been only required to pay the minimum quarterly payments. Cost of revenues for the three months and six months ended June 30, 1997 were \$40,865 and \$71,524, respectively, as compared to \$14,268 and \$27,510 for the same periods in the prior year. The increase is due primarily to the increase in revenues which increases the distribution fees related to the bundling arrangements with IBM and U.S. Robotics.

RESEARCH AND DEVELOPMENT. Research and development expenses consist primarily of employee compensation associated with the design, programming, and testing of the PC411 service. Research and development expenses for the three months and six months ended June 30, 1997 were \$16,796 and \$24,639, respectively, as compared to \$74,366 and \$150,525 for the same periods in the prior year. The decrease in research and development was primarily attributable to a decrease in the number of programmer hours as a result of the completion of the initial version of the Company's software program. Research and development will increase over the next six months as the Windows 95 compatible version of the software is completed.

SALES AND MARKETING EXPENSES. Sales and marketing expenses consist primarily of public relations, print advertising, and trade shows. Sales and marketing expenses for the three months and six months ended June 30, 1997 were \$50,321 and \$66,176, respectively, as compared to \$5,870 and \$19,305 for the same periods in the prior year. The increase in sales and marketing expenses is due to the Company's effort to obtain additional bundling arrangements.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist primarily of expenses for administration, office operations, and general management activities, including legal, accounting, and other professional fees. General and administrative expenses were \$156,788 and \$286,646 for the three months and six months ended June 30, 1997, respectively, as compared to \$87,411 and \$212,992 for the same periods in the prior year. The increase in general and administrative expenses is due to an increase in payroll and costs associated with a public company.

12

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

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

OTHER INCOME (EXPENSE). Interest expense was \$36,256 and \$94,002 for the three months and six months ended June 30, 1997. The interest expense was attributed entirely to the loan from New Valley Corporation ("NVC"), an indirect majority owner of the Company. Included in interest expense was \$70,000 in imputed interest attributable to stock options granted to Direct Assist Holding Inc. ("DAH"), a wholly-owned subsidiary of NVC, on January 29, 1997. Interest income for the three months and six months ended June 30, 1997 was \$35,473 which related to interest on the funds received on May 22, 1997 for the initial public offering.

INCOME TAXES; NET OPERATING LOSS. The Company had no income and therefore made no provision for federal or state income taxes other than the required California state minimum tax of \$800. At June 30, 1997, the Company had approximately \$1,600,000 of federal net operating loss carryforwards for tax reporting purposes available to offset future taxable income, if any. The amounts of and the benefits from net operating loss carryforwards are subject to certain limitations and these net operating loss carryforwards expire in 2010.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception the Company has financed its operations primarily through the sale of common stock, the private placement of Preferred Stock, and secured short-term borrowings from NVC. The Company has not been able to generate sufficient cash from operations and, as a consequence, additional financing has been required to fund ongoing operations. Cash used in operations for the six months ended June 30, 1997 and 1996 was \$11,086 and \$355,628, respectively. The decrease in the cash used in operations in 1997 as compared to 1996 was due primarily to the increase in accrued expenses of \$126,708 and the decrease in prepaid expenses of \$149,870 which were primarily related to IPO costs.

Capital expenditures for the six months ended June 30, 1997 were \$5,978 as compared to \$7,569 for the six months ended June 30, 1996. These expenditures were primarily for computer equipment.

Cash provided by financing activities for the six months ended June 30, 1997 was \$5,635,982, of which \$5,885,000 related to proceeds from the initial public offering. On May 22, 1997, the Company issued to NVC warrants in satisfaction of \$250,000 of indebtedness under the NVC loan agreement and net proceeds from the IPO were used to repay NVC the then remaining outstanding balance of the loan and accrued interest of \$447,064. Financing for the cash used in operations for the six months ended June 30, 1996 was provided through the sale of 1,820 shares of Preferred Stock to DAH for \$1,001,000 on May 28, 1995 and through the NVC loan agreement. On January 29, 1997, the Company converted the 1,820 shares of Preferred Stock into 8,626 shares of Common Stock (1,490,000 shares after stock split) and paid the cumulative dividends thereon of \$171,953 on May 22, 1997 out of net proceeds from the IPO.

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

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

As noted above, the Company completed the sale of 1,322,500 units at a price of \$5.75 per unit and received net proceeds after IPO expenses of approximately \$5.9 million. After the repayment of the NVC loan, cumulative Preferred Stock dividends, and an \$80,000 consulting fee to the Underwriter of the IPO, the Company had approximately \$5.4 million to use to complete the introduction of the PC411 service over the Internet, to expand marketing, sales and advertising, to develop or acquire new services or databases, and for general corporate purposes.

The Company expects that its cash used in operating activities will increase in the future. The timing of the Company's future capital requirements, however, cannot be accurately predicted. The Company's capital requirements depend upon numerous factors, principally the acceptance and use of the PC411 services and the Company's ability to generate advertising revenue. If capital requirements vary materially from those currently planned, the Company may require additional financing, including, but not limited to the sale of equity or debt securities. The Company has no commitments for any additional financing, and there can be no assurance that any such commitments can be obtained. Any additional equity financing may be dilutive to the Company's existing stockholders, and debt financing, if available, may involve pledging some or all of the Company's assets and may contain restrictive covenants with respect to raising future capital and other financial and operational matters.

The Company believes that the net proceeds from the IPO will be sufficient to meet the Company's operations and capital requirements for the next 12 months, although there can be no assurance in this regard. Although there can be no assurance, management believes that the Company will be able to continue as a going concern for the next 12 months.

The Company and its representatives may from time to time make oral or written "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995 (the "Reform Act"), including any statements that may be contained in the foregoing "Management's Discussion and Analysis of Financial Condition and Results of Operations", in this report and in other filings with the Securities and Exchange Commission and in its reports to stockholders, which represent the Company's expectations or beliefs with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties and, in connection with the "safe-harbor" provisions of the Reform Act, the Company is hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by or on behalf of the Company.

14

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

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

The Company's plans and objectives are based, in part, on assumptions involving the continued growth and expansion of the Internet, the Company's ability to market successfully the PC411 service and related services to the SOHO (small office/home office) market and to private intranets as a more convenient and reliable alternative to current comparable and widely used services and that there will be no unanticipated material adverse change in the Company's business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company.

Results actually achieved may differ materially from expected results included in these statements as a result of these or other factors particularly in light of the Company's early stage operations. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date on which such statements are made. The Company does not undertake to update any forward-looking statement that may be made from time to time on behalf of the Company.

15

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

PART II. OTHER INFORMATION

Item 5. OTHER INFORMATION

Effective as of July 31, 1997, the Company's Common Stock (symbol: PCFR), Redeemable Class A Warrants (symbol: PCFRW), and Units (symbol: PCFRU) began trading on the Nasdaq SmallCap Market. Such securities had previously traded on the OTC Bulletin Board.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

- 10.1 Employment Agreement dated May 14, 1997 between the Company and Dean R. Eaker.
- 10.2 Employment Agreement dated May 14, 1997 between the

Company and Edward A. Fleiss.

27. Financial Data Schedule (for SEC use only)

(b) REPORTS ON FORM 8-K

None

16

PC411, INC.
(A DEVELOPMENT STAGE COMPANY)

SIGNATURE

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.

PC411, INC.
(Registrant)

Date: August 13, 1997 By: /s/ ROBERT M. LUNDGREN

Robert M. Lundgren
Vice President, Treasurer
and Chief Financial Officer
(Duly Authorized Officer and
Chief Accounting Officer)

17

Exhibit 10.1

Employment Agreement dated as of
May 14, 1997 by and between PC411, Inc.
(the "Company") and Dean Eaker (the "Employee")

The Company and the Employee agree to the Employee's employment by the Company on the following terms:

1. EMPLOYMENT: TERM.

The Company will employ the Employee, and the Employee will work for the Company, as its President and Chief Executive Officer ("CEO"), for a term commencing on May 14, 1997 and, unless sooner terminated in accordance with the provisions of Section 11, terminating on June 30, 1998 (the "Initial Term"). The Initial Term shall be extended for successive one-year periods (the "Additional Terms") unless terminated at the end of the Initial Term or any Additional Term by either party upon ninety (90) days' prior written notice given to the other party (the Initial Term and any Additional Terms shall be referred to as the "Employment Period").

2. DUTIES.

During the Employment Period, the Employee shall serve as the President and CEO of the Company and perform such duties as shall, from time to time, be reasonably delegated or assigned to the Employee by the Board of Directors of the Company consistent with his position. Thus, the Employee shall: (i) expend substantially all of his working time for the Company; (ii) devote his best efforts, energy and skill to the services of the Company and the promotion of its interests; and (iii) not take part in activities known by Employee to be detrimental to the best interests of the Company and/or any affiliate thereof. During the Employment Period, the Employee shall be permitted to operate his affiliate, Electronic Pictures Corp., provided that the operation thereof will not: (i) violate any law or any provision hereof; (ii) limit the Company's or its affiliate's activities; (iii) create any conflict between the Employees fiduciary obligations to the Company and its affiliates; or (iv) materially interfere with the performance of the Employee's duties hereunder. The Employee's duties and job location will be carried out from offices in Connecticut or New York.

3. COMPENSATION.

3.1 In consideration for the services to be performed by the Employee for the Company during the Employment Period, the Company shall compensate Employee at an initial annual base salary of \$180,000 ("Base Salary"), payable in accordance with the Company's standard payroll practices. The amount of the Base Salary shall be subject to review at the end of each calendar year and may be increased (any such

increase effective as of the following January 1), but not decreased, at the Company's sole discretion.

3.2 During the Employment Period, Employee shall also be entitled to an incentive bonus based on each calendar year or portion thereof in an amount equal to a percentage of Base Salary earned and paid during such calendar year, and calculated in accordance with performance goals, to be determined annually by the Employee and the Board of Directors. The percentage of Base Salary and the performance goals for the first calendar year of the Employment Period shall be determined as soon as practicable following commencement of this Agreement, provided, the parties hereto shall exert their best efforts to make such determination by September 30, 1997.

4. BENEFITS AND REIMBURSEMENT OF EXPENSES.

4.1 Employee shall receive all benefits and fringes, if any, made available to other employees and officers of the Company to the full extent of

Employee's eligibility, including medical, dental, life insurance and disability insurance benefits and pension and other similar plans, provided that the Employee shall be provided with life insurance at least equal to \$500,000 (provided he is insurable at standard rates).

4.2 The Company shall pay directly, or reimburse the Employee for, all reasonable and necessary expenses and disbursements incurred by him for and on behalf of the Company in the performance of his duties under this Agreement. For such purposes, the Employee shall submit to the Company itemized reports of such expenses in accordance with the Company's policies. Employee shall be entitled to a monthly automobile allowance of \$550 per month.

4.3 Employee shall be entitled to paid vacations during the Employment Period in accordance with the Company's then applicable policy for executive employees, provided that the Employee shall not be entitled to less than four (4) weeks paid vacation in each full contract year.

5. INVENTIONS AND PATENTS.

5.1 The Employee will promptly and fully disclose to the Company, or any of its designees, any and all improvements, designs, ideas, works of authorship, copyrightable works, discoveries, trademarks, copyrights, trade secrets, formulae, processes, techniques, know-how, and data, whether or not patentable, made or conceived or reduced to practice or learned by Employee, either alone or jointly with others, during the period of Employee's employment (whether or not during normal working hours) that are related to or useful in the actual or anticipated business of the Company or any of its subsidiaries, or result from tasks assigned Employee by the Company or its subsidiaries, or result from use of premises or equipment owned, leased, or contracted for by the Company or its subsidiaries (all said improvements,

2

inventions, designs, ideas, works of authorship, copyrightable works, discoveries, trademarks, copyrights, trade secrets, formulae, processes, techniques, know-how, data, patent applications, continuation applications, continuation-in-part applications, file wrapper continuation applications and divisional applications shall be collectively hereinafter called "Inventions"). All such Inventions shall be the sole property of the Company, its successors, assigns and nominees, and Employee hereby assigns to the Company, without further compensation, all rights, title and interest in and to such Inventions and any and all related patents, patent applications, copyrights, copyright applications, trademarks and trade names in the United States and elsewhere.

5.2 The Employee hereby assigns to the Company, without further compensation, all of his interest as of the date hereof in the proposed joint venture known as "American Web Station" (formerly known as "Time and Space Inc.") between the Employee (and/or an affiliate thereof) and Hawthorne Communications, Inc.

5.3 Except as listed on Annex A attached to this Agreement, Employee will not assert any rights to any Inventions as having been made or acquired by Employee prior to being employed by the Company, or since then, and not otherwise covered by the terms of this Agreement. Employee shall not be obligated to assign any Invention that may be wholly conceived by him after Employee leaves the employ of the Company, except that Employee is so obligated if such Invention shall involve the utilization of confidential information or Proprietary Information (as defined herein) obtained while in the employ of the Company. Employee shall not be obligated to assign any Invention that relates to or would be useful in any business or activities in which the Company or any subsidiary thereof is engaged if such Invention was conceived and reduced to practice by Employee prior to his employment with the Company, provided that all such Inventions are listed on the attached Annex A.

5.4 The Employee will keep and maintain adequate and current written records of all Inventions (in the form of notes, sketches, drawings and as may be specified by the Company), which records shall be available to and remain the sole property of the Company at all times.

5.5 The Employee will assist the Company in obtaining and enforcing patents, copyrights and other forms of legal protection of such Inventions in any country. Upon request, the Employee will execute all applications,

assignments, instruments and papers and perform all acts necessary or desired by the Company to assign all such Inventions fully and completely to the Company and to enable the Company, its successors, assigns and nominees, to secure and enjoy the full and exclusive benefits and advantages thereof. If the Company is unable, after reasonable effort, to secure Employee's signature on any patent, copyright or other analogous protection relating to an Invention, whether because of Employee's physical or mental incapacity or for any other reason whatsoever, Employee hereby irrevocably designates

3

and appoints the Company and its duly authorized officers and agents as his agent and attorney-in-fact, to act for and in his behalf and stead to execute and file any such application or applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent, copyright or other analogous protection thereon with the same legal force and effect as if executed by Employee.

5.6 Employee acknowledges that all original works of authorship which are made by him (solely or jointly with others) within the scope of his employment and which are protectable by copyright are being created at the instance of the Company and are "works made for hire," as that term is defined in the United States Copyright Act (17 USCA, Section 101). If such laws are inapplicable or in the event that such works, or any part thereof, are determined by a court of competent jurisdiction not to be a work made for hire under the United States copyright laws, this Agreement shall operate as an irrevocable and unconditional assignment by Employee to the Company of all of his right, title and interest (including, without limitation all rights in and to the copyrights throughout the world, including the right to prepare derivative works and the right to all renewals and extensions) in the works in perpetuity.

5.7 The Employee understands that certain obligations under this Section 5 will continue after the termination of his employment with the Company and that during the Employment Period Employee will perform his obligations under this Section 5 without further payment of any kind, except for reimbursement of expenses incurred at the request of the Company. The Employee further understands that if he is not employed by the Company as an employee at the time he is requested to perform any obligations under this Section 5, he shall receive for such performance a reasonable per diem fee, as well as reimbursement of any expenses incurred at the request of the Company.

6. PROPRIETARY INFORMATION.

6.1 The Employee recognizes that his relationship with the Company is one of high trust and confidence by reason of his access to and contact with the trade secrets and confidential and proprietary information of the Company and any subsidiaries of the Company. Except as may be otherwise required by law, the Employee will not at any time, either during his employment with the Company or thereafter, disclose to others, or use for his own benefit or the benefit of others, any Inventions or any confidential, proprietary or secret information owned, possessed or used by the Company and any subsidiaries of the Company (collectively, "Proprietary Information"). By way of illustration, but not limitation, Proprietary Information includes trade secrets, processes, data, know-how, marketing plans, forecasts, unpublished financial statements, budgets, licenses, prices, costs and employee, customer and supplier lists.

4

6.2 The Employee's undertakings and obligations under this Section 6 will not apply, however, to any Proprietary Information which: (i) is or becomes in the public domain through no action on his part, (ii) is generally disclosed to unrelated third parties, or (iii) is approved for release by written authorization of the Board of Directors of the Company or its designees.

6.3 Upon termination of employment with the Company or at any other time upon request, the Employee will promptly deliver to the Company at its expense all notes, memoranda, notebooks, drawings, records, reports, files and

other documents (and all copies or reproductions of such materials) in his possession or under his control, whether prepared by him or others, which contain Proprietary Information. The Employee acknowledges that this material is the sole property of the Company.

7. ABSENCE OF RESTRICTIONS UPON DISCLOSURE AND COMPETITION.

7.1 The Employee represents that, except as has been disclosed in writing to the Company, he is not bound by the terms of any agreement with any previous employers or other party to refrain from using or disclosing any trade secret or confidential or proprietary information in the course of his employment with the Company or to refrain from such competing, directly or indirectly, with the business of such previous employer or any other party.

7.2 The Employee further represents that his performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by him in confidence or in trust prior to his employment with the Company, and will not disclose to the Company or induce the Company to use any confidential or proprietary information or material belonging to any previous employer or others.

8. COVENANT NOT TO COMPETE.

(a) Unless otherwise approved by the Board of Directors in writing, during the period specified in subsection (b) below, the Employee shall not directly engage (whether for compensation or without compensation) in any business activity, other than Electronic Pictures Corporation as provided in Section 2 hereof, either as an individual proprietor, partner, stockholder, officer, employee, director, consultant or in any other capacity whatsoever (otherwise than as the holder of not more than one percent (1%) of the total outstanding stock of a publicly held company), which competes with any business conducted by the Company or any of its subsidiaries at any time during the period of his employment with the Company.

(b) The restrictions specified in subsection (a) above shall be applicable during the period Employee is employed by the Company and for a period of one year thereafter.

5

(c) The restrictions set forth in this Section 8 are considered by the parties to be reasonable for the purposes of protecting the business of the Company. However, if any such restriction is found by any court of competent jurisdiction to be unenforceable because it extends for too long a period of time or over too great a range of activities or in too broad a geographic area, it shall be interpreted to extend only over the maximum period of time, range of activities or geographic areas as to which it may be enforceable.

(d) It shall not be considered a competitive activity within the meaning of subsection (a) above for the Employee to be a member of the faculty or staff of a university, college or other educational institution, and to undertake all activities which are normally associated with such positions.

9. COVENANT NOT TO SOLICIT EMPLOYEES.

Unless otherwise approved by the Board of Directors in writing, the Employee shall not at any time, during or for a period of one year after his employment by the Company, recruit or otherwise solicit or induce any employee of the Company or any of its subsidiaries to terminate their employment with, or otherwise cease their relationships with, the Company or any of its subsidiaries.

10. INJUNCTIVE RELIEF.

Employee acknowledges and agrees that, in the event he shall violate any provisions of Sections 6 through 9, the Company will be without an adequate remedy at law and, accordingly, will be entitled to enforce such restrictions by temporary or permanent injunctive or mandatory relief obtained in any action or proceeding instituted in any court of competent jurisdiction without the necessity of proving damages and without prejudice to any other remedies which

it may have at law or in equity.

11. TERMINATION.

11.1 Employee's employment shall automatically be terminated upon the death of the Employee or Employee's voluntarily leaving the employ of the Company and, in addition, Employee's employment may be terminated, at the sole discretion of the Company, and without recourse by the Employee, upon the occurrence of either of the following events:

(a) in the event of the Employee's disability as set forth in Section 11.2 below, but only upon fourteen (14) days' prior written notice from the Company to the Employee;

6

(b) in the event that the Board of Directors determines in writing that there is cause for immediate termination, which shall mean that the Board of Directors determines either (i) Employee has failed to perform material duties as an employee and officer of the Company following receipt of a written notice from the Board of Directors, which identifies the manner in which the Employee has failed to perform duties; (ii) Employee has failed to follow any reasonable policies or directives of the Board of Directors after having received written notice from the Board of Directors that the Employee is not following such policies or directions, and Employee fails to cure such failure within 10 business days of such notice; (iii) Employee has engaged in willful, malicious or bad faith conduct materially detrimental to the Company; (iv) Employee has been convicted of any felony; or (v) Employee has materially breached this Agreement.

11.2 Employee shall be deemed disabled if, in the reasonable opinion of the Board of Directors of the Company, as confirmed by competent medical advice, he shall become physically or mentally unable to perform his duties for the Company and such incapacity shall have continued for any period of ninety (90) consecutive days.

11.3 In the event the Company terminates the Employee's employment for any reason other than in accordance with Section 11.1 or in the event of non-renewal of the Employment Period by the Company pursuant to Section 1, then the Company shall pay to the Employee all amounts earned by the Employee pursuant to Section 3 together with any reimbursable amount pursuant to Section 4, plus, provided he signs a release of all claims arising out of his employment with the Company or termination thereof (other than his right to indemnification, which shall survive) in such form as reasonably requested by the Company, severance pay equal to the amount of Base Salary he would have received if he was employed for six months after termination of the Employment Period. Such severance shall be paid in six (6) equal monthly installments, subject to any required withholding, beginning on the first day of the month immediately following the Employee's execution of the aforesaid release, provided, however, that on such date the Employee is in compliance with and thereafter he continues to comply with any and all material provisions that survive the termination of this Agreement. The Company and its affiliated entities shall have no other obligations to the Employee.

(a) For purposes of this Section 11.3, in the event the Employee shall resign from his employment with the Company subsequent to any materially adverse change in his title, nature of duties, powers or responsibilities or employee benefits or a relocation of his primary place of employment from New York or Connecticut or other material breach of this Agreement by the Company, such resignation shall be deemed to be a termination of employment by the Company other than in accordance with Section 11.1.

7

(b) The Employee shall be under no obligation to mitigate the amount of any payment provided for under this Section 11.3 by seeking other employment or otherwise nor shall such amount be offset by any compensation which the Employee may receive from future employment or otherwise.

12. SERVICE AS DIRECTOR.

During the Employment Period, the Employee shall, if elected or appointed, serve as a Director of the Company and/or any affiliate of the Company without receipt of any additional compensation therefor unless otherwise provided by the Board of Directors.

13. STOCK OPTIONS.

On or before the date of this Agreement, the Company shall have granted to Employee options under the PC411, Inc. 1997 Stock Option Plan (the "1997 Plan") to purchase 364,000 shares of the Company's common stock at \$4.40 per share (the "Options"). The Options are intended to constitute Incentive Stock Options (as defined in the 1997 Plan) only to the extent the aggregate Fair Market Value (as defined in the 1997 Plan), as of the date of grant, of the shares of Common Stock with respect to which such options are exercisable for the first time during any calendar year does not exceed \$100,000 or such other amount as specified in Section 422 of the Internal Revenue Code of 1986, as amended. All other Options will be Nonqualified Stock Options (as defined in the 1997 Plan). Subject to the terms and conditions of the 1997 Plan, one third of such options are exercisable upon the consummation of the Company's initial public offering (the "IPO") and one third thereof are exercisable on each of the first and second anniversaries of the IPO, provided the Employee is employed by the Company on such dates. Employee may exercise the Options through a cashless exercise method. As soon as it is practicable, the Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Securities Act of 1933, as amended, the shares of Common Stock issuable to the Employee upon exercise of the Options and the resale thereof by him. In the event New Valley Corporation disposes of any of its shares in the Company, the Company will use its best efforts to take all necessary actions to permit Employee, if he so elects, to dispose of a proportionate percentage of his shares in the Company (or shares he could acquire upon the exercise of his vested options) on the same terms and conditions of those that apply to New Valley Corporation.

14. ASSIGNMENT.

This Agreement, as it relates to the employment of the Employee, is a personal contract and the rights and interests of the Employee hereunder may not be sold,

8

transferred, assigned, pledged or hypothecated. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns, including without limitation, any corporation or other entity into which the Company is merged, irrespective of whether or not the Company is the surviving entity of such merger, or which acquires all of the outstanding shares of the Company's capital stock, or all of substantially all of the assets of the Company, provided, however, any such assignment shall be valid only so long as Company or its successor is not relieved of any obligation hereunder and so long as the assignee assumes the Company's obligations hereunder. To the extent permitted by law, the Employee shall not have any power of anticipation, alienation or assignment of payments contemplated hereunder, and all rights and benefits of the Employee shall be for the sole personal benefit of the Employee, and no other person shall acquire any right, title or interest hereunder by reason of any sale, assignment, transfer, claim or judgment or bankruptcy proceedings against the Employee.

15. NOTICES.

Any notice required or permitted to be given pursuant to this Agreement shall be deemed given three (3) business days after such notice is mailed by certified mail, return receipt requested, addressed as follows: (i) if to Employee, at 67 Stonehedge Drive South, Greenwich, CT 06831; and (ii) if to the Company, at PC411, Inc., 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131, Attention: Chief Financial Officer, or at such other address as either party shall designate by written notice to the other party.

16. GOVERNING LAW.

This Agreement shall be governed by and enforced in accordance with the laws of the State of New York. Any dispute or controversy with respect to this Agreement, other than injunctive relief under Section 10, shall be submitted to arbitration, in New York City, with the American Arbitration Association. The decision of the arbitrators shall be final and binding upon the parties hereto and may be entered in any court having jurisdiction. The prevailing party in such arbitration proceeding shall be entitled to full reimbursement of the fees, costs and expenses incurred therein.

17. WAIVER.

The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach. If any provision of this Agreement shall be held to be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and not in any way affect or render invalid or unenforceable any other provisions of this Agreement, and this Agreement shall be carried out as if such invalid or unenforceable provision were not part of this Agreement.

18. INDEMNIFICATION.

The Employee shall be entitled to be indemnified by the Company for his actions as an officer, director, employee, agent or fiduciary of the Company or its affiliated entities to the fullest extent permitted by applicable law and shall have legal fees and other expenses paid to him in advance of final disposition of a proceeding provided he executes an undertaking to repay such amounts if, and to the extent, required to do so by applicable law. The Company shall cover the Employee under any directors and officers liability insurance policy to the same extent as its other senior officers.

19. ENTIRE AGREEMENT.

This Agreement constitutes the entire agreement between the parties with respect to the Employee's employment by the Company and there are no representations, warranties or commitments except as set forth herein. This Agreement supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether written or oral, of the parties hereto relating to the transactions contemplated by this Agreement.

20. LOCK-UP AGREEMENT(S).

With respect to any future sale of securities of the Company, the Employee will execute such lock-up agreement(s) as may be required by an underwriter, the NASD, the Securities and Exchange Commission and any state "blue sky" regulators provided, however, that the terms and conditions of such lock-up agreement(s) must be substantially the same in all material respects with any lock-up agreement(s) signed by other officers, directors, and stockholders of the Company.

Executed as an Agreement as of May 14, 1997.

PC411, INC.

/s/ DEAN R. EAKER

Dean R. Eaker

/s/ ROBERT M. LUNDGREN

Robert M. Lundgren
Vice President and
Chief Financial Officer

ANNEX A

Employment Agreement dated as of
May 14, 1997 by and between PC411, Inc.
(the "Company") and Dean Eaker (the "Employee")

The Employee represents that he has indicated on this Annex all Inventions (as defined in the Agreement) in which he owned any right or interest prior to his employment with the Company. The Employee agrees that any present or future Inventions not listed in this Annex are subject to assignment under the Agreement.

Brief Description of Inventions -----	Right, Title or Interest and Date Acquired -----
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Employee hereby represents that the following relationships of Electronic Pictures Corp. as well as his activities relating thereto will not interfere nor otherwise pose a conflict with any of his ongoing duties, obligations or responsibilities at the Company:

- Developing Strategic Alliances for Immersion Corporation (a small technology company that has a 3D digitizing product called Microscribe-3D).
- Developing Strategic Alliances for Digits N' Arts (a small Canadian 3D software company).
- Consulting and/or representing many digital artists and generally promoting and evangelizing Digital Art as a mass medium art form.

Exhibit 10.2

Employment Agreement dated as of
May 14, 1997 by and between PC411, Inc.
(the "Company") and Edward A. Fleiss (the "Employee")

The Company and the Employee agree to the Employee's employment by the Company on the following terms:

1. EMPLOYMENT: TERM.

The Company will employ the Employee, and the Employee will work for the Company, as its Vice President and Chief Technology Officer ("CTO"), for a term commencing on May 14, 1997 and, unless sooner terminated in accordance with the provisions of Section 11, terminating on June 30, 1998 (the "Initial Term"). The Initial Term shall be extended for successive one-year periods (the "Additional Terms") unless terminated at the end of the Initial Term or any Additional Term by either party upon ninety (90) days' prior written notice given to the other party (the Initial Term and any Additional Terms shall be referred to as the "Employment Period").

2. DUTIES.

During the Employment Period, the Employee shall serve as the Vice President and CTO of the Company and perform such duties as shall, from time to time, be reasonably delegated or assigned to the Employee by the Board of Directors of the Company consistent with his position. Thus, the Employee shall: (i) expend substantially all of his working time for the Company; (ii) devote his best efforts, energy and skill to the services of the Company and the promotion of its interests; and (iii) not take part in activities known by Employee to be detrimental to the best interests of the Company and/or any affiliate thereof. The Employee's duties and job location will be carried out from offices in Connecticut or New York.

3. COMPENSATION.

3.1 In consideration for the services to be performed by the Employee for the Company during the Employment Period, the Company shall compensate Employee at an initial annual base salary of \$96,000 ("Base Salary"), payable in accordance with the Company's standard payroll practices. The amount of the Base Salary shall be subject to review at the end of each calendar year and may be increased (any such increase effective as of the following January 1), but not decreased, at the Company's sole discretion.

3.2 During the Employment Period, Employee shall also be entitled to an annual incentive bonus based on each calendar year or portion thereof in an amount equal to a percentage of Base Salary earned and paid during such calendar year, and

calculated in accordance with performance goals, to be determined annually by the Employee and the Board of Directors. The percentage of Base Salary and the performance goals for the first calendar year of the Employment Period shall be determined as soon as practicable following commencement of this Agreement, provided, the parties hereto shall exert their best efforts to make such determination by September 30, 1997.

4. BENEFITS AND REIMBURSEMENT OF EXPENSES.

4.1 Employee shall receive all benefits and fringes, if any, made available to other employees and officers of the Company to the full extent of Employee's eligibility, including medical, dental, life insurance and disability insurance benefits and pension and other similar plans, provided that the Employee shall be provided with life insurance at least equal to \$500,000 (provided he is insurable at standard rates).

4.2 The Company shall pay directly, or reimburse the Employee for, all reasonable and necessary expenses and disbursements incurred by him for and on behalf of the Company in the performance of his duties under this Agreement. For

such purposes, the Employee shall submit to the Company itemized reports of such expenses in accordance with the Company's policies.

4.3 Employee shall be entitled to paid vacations during the Employment Period in accordance with the Company's then applicable policy for executive employees, provided that the Employee shall not be entitled to less than four (4) weeks paid vacation in each full contract year.

5. INVENTIONS AND PATENTS.

5.1 The services the Employee will perform in the course of employment may include the invention of new programs, methods, processes, apparatus and products and the development and improvement of existing programs, methods, processes, apparatus, reports, drawings, memoranda, specimens, models, letters, notebooks, software, firmware, program listings and documentation which will or may be related to or used in the business of the Company and any subsidiary thereof. The Employee will promptly and fully disclose to the Company, or any of its designees, any and all improvements, designs, ideas, works of authorship, copyrightable works, discoveries, trademarks, copyrights, trade secrets, formulae, processes, techniques, know-how, and data, whether or not patentable, made or conceived or reduced to practice or learned by Employee, either alone or jointly with others, during the period of Employee's employment (whether or not during normal working hours) that are related to or useful in the actual or anticipated business of the Company or any of its subsidiaries, or result from tasks assigned Employee by the Company or its subsidiaries, or result from use of premises or equipment owned, leased, or contracted for by the Company or its subsidiaries (all said improvements, inventions, designs,

2

ideas, works of authorship, copyrightable works, discoveries, trademarks, copyrights, trade secrets, formulae, processes, techniques, know-how, data, patent applications, continuation applications, continuation-in-part applications, file wrapper continuation applications and divisional applications shall be collectively hereinafter called "Inventions"). All such Inventions shall be the sole property of the Company, its successors, assigns and nominees, and Employee hereby assigns to the Company, without further compensation, all rights, title and interest in and to such Inventions and any and all related patents, patent applications, copyrights, copyright applications, trademarks and trade names in the United States and elsewhere.

5.2 Except as listed on Annex A attached to this Agreement, Employee will not assert any rights to any Inventions as having been made or acquired by Employee prior to being employed by the Company, or since then, and not otherwise covered by the terms of this Agreement. Employee shall not be obligated to assign any Invention that may be wholly conceived by him after Employee leaves the employ of the Company, except that Employee is so obligated if such Invention shall involve the utilization of confidential information or Proprietary Information (as defined herein) obtained while in the employ of the Company. Employee shall not be obligated to assign any Invention that relates to or would be useful in any business or activities in which the Company or any subsidiary thereof is engaged if such Invention was conceived and reduced to practice by Employee prior to his employment with the Company, provided that all such Inventions are listed on the attached Annex A.

5.3 The Employee will keep and maintain adequate and current written records of all Inventions (in the form of notes, sketches, drawings and as may be specified by the Company), which records shall be available to and remain the sole property of the Company at all times.

5.4 The Employee will assist the Company in obtaining and enforcing patents, copyrights and other forms of legal protection of such Inventions in any country. Upon request, the Employee will execute all applications, assignments, instruments and papers and perform all acts necessary or desired by the Company to assign all such Inventions fully and completely to the Company and to enable the Company, its successors, assigns and nominees, to secure and enjoy the full and exclusive benefits and advantages thereof. If the Company is unable, after reasonable effort, to secure Employee's signature on any patent, copyright or other analogous protection relating to an Invention, whether because of Employee's physical or mental incapacity or for any other reason whatsoever, Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as his agent and attorney-in-fact, to

act for and in his behalf and stead to execute and file any such application or applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent, copyright or other analogous protection thereon with the same legal force and effect as if executed by Employee.

3

5.5 Employee acknowledges that all original works of authorship which are made by him (solely or jointly with others) within the scope of his employment and which are protectable by copyright are being created at the instance of the Company and are "works made for hire," as that term is defined in the United States Copyright Act (17 USCA, Section 101). If such laws are inapplicable or in the event that such works, or any part thereof, are determined by a court of competent jurisdiction not to be a work made for hire under the United States copyright laws, this Agreement shall operate as an irrevocable and unconditional assignment by Employee to the Company of all of his right, title and interest (including, without limitation all rights in and to the copyrights throughout the world, including the right to prepare derivative works and the right to all renewals and extensions) in the works in perpetuity.

5.6 The Employee understands that certain obligations under this Section 5 will continue after the termination of his employment with the Company and that during the Employment Period Employee will perform his obligations under this Section 5 without further payment of any kind, except for reimbursement of expenses incurred at the request of the Company. The Employee further understands that if he is not employed by the Company as an employee at the time he is requested to perform any obligations under this Section 5, he shall receive for such performance a reasonable per diem fee, as well as reimbursement of any expenses incurred at the request of the Company.

6. PROPRIETARY INFORMATION.

6.1 The Employee recognizes that his relationship with the Company is one of high trust and confidence by reason of his access to and contact with the trade secrets and confidential and proprietary information of the Company and any subsidiaries of the Company. Except as may be otherwise required by law, the Employee will not at any time, either during his employment with the Company or thereafter, disclose to others, or use for his own benefit or the benefit of others, any Inventions or any confidential, proprietary or secret information owned, possessed or used by the Company and any subsidiaries of the Company (collectively, "Proprietary Information"). By way of illustration, but not limitation, Proprietary Information includes trade secrets, processes, data, know-how, marketing plans, forecasts, unpublished financial statements, budgets, licenses, prices, costs and employee, customer and supplier lists.

6.2 The Employee's undertakings and obligations under this Section 6 will not apply, however, to any Proprietary Information which: (i) is or becomes in the public domain through no action on his part, (ii) is generally disclosed to unrelated third parties, or (iii) is approved for release by written authorization of the Board of Directors of the Company or its designees.

4

6.3 Upon termination of employment with the Company or at any other time upon request, the Employee will promptly deliver to the Company at its expense all notes, memoranda, notebooks, drawings, records, reports, files and other documents (and all copies or reproductions of such materials) in his possession or under his control, whether prepared by him or others, which contain Proprietary Information. The Employee acknowledges that this material is the sole property of the Company.

7. ABSENCE OF RESTRICTIONS UPON DISCLOSURE AND COMPETITION.

7.1 The Employee represents that, except as has been disclosed in writing to the Company, he is not bound by the terms of any agreement with any

previous employers or other party to refrain from using or disclosing any trade secret or confidential or proprietary information in the course of his employment with the Company or to refrain from such competing, directly or indirectly, with the business of such previous employer or any other party.

7.2 The Employee further represents that his performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by him in confidence or in trust prior to his employment with the Company, and will not disclose to the Company or induce the Company to use any confidential or proprietary information or material belonging to any previous employer or others.

8. COVENANT NOT TO COMPETE.

(a) Unless otherwise approved by the Board of Directors in writing, during the period specified in subsection (b) below, the Employee shall not directly engage (whether for compensation or without compensation) in any business activity, either as an individual proprietor, partner, stockholder, officer, employee, director, consultant or in any other capacity whatsoever (otherwise than as the holder of not more than one percent (1%) of the total outstanding stock of a publicly held company), which competes with any business conducted by the Company or any of its subsidiaries at any time during the period of his employment with the Company.

(b) The restrictions specified in subsection (a) above shall be applicable during the period Employee is employed by the Company and for a period of one year thereafter.

(c) The restrictions set forth in this Section 8 are considered by the parties to be reasonable for the purposes of protecting the business of the Company. However, if any such restriction is found by any court of competent jurisdiction to be unenforceable because it extends for too long a period of time or over too great a range of activities or in too broad a geographic area, it shall be interpreted to extend only

5

over the maximum period of time, range of activities or geographic areas as to which it may be enforceable.

(d) It shall not be considered a competitive activity within the meaning of subsection (a) above for the Employee to be a member of the faculty or staff of a university, college or other educational institution, and to undertake all activities which are normally associated with such positions.

9. COVENANT NOT TO SOLICIT EMPLOYEES.

Unless otherwise approved by the Board of Directors in writing, the Employee shall not at any time, during or for a period of one year after his employment by the Company, recruit or otherwise solicit or induce any employee of the Company or any of its subsidiaries to terminate their employment with, or otherwise cease their relationships with, the Company or any of its subsidiaries.

10. INJUNCTIVE RELIEF.

Employee acknowledges and agrees that, in the event he shall violate any provisions of Sections 6 through 9, the Company will be without an adequate remedy at law and, accordingly, will be entitled to enforce such restrictions by temporary or permanent injunctive or mandatory relief obtained in any action or proceeding instituted in any court of competent jurisdiction without the necessity of proving damages and without prejudice to any other remedies which it may have at law or in equity.

11. TERMINATION.

11.1 Employee's employment shall automatically be terminated upon the death of the Employee or Employee's voluntarily leaving the employ of the Company and, in addition, Employee's employment may be terminated, at the sole

discretion of the Company, and without recourse by the Employee, upon the occurrence of either of the following events:

(a) in the event of the Employee's disability as set forth in Section 11.2 below, but only upon fourteen (14) days' prior written notice from the Company to the Employee;

(b) in the event that the Board of Directors determines in writing that there is cause for immediate termination, which shall mean that the Board of Directors determines either (i) Employee has failed to perform material duties as an employee and officer of the Company following receipt of a written notice from the Board of Directors, which identifies the manner in which the Employee has failed to perform duties; (ii) Employee has failed to follow any

6

reasonable policies or directives of the Board of Directors after having received written notice from the Board of Directors that the Employee is not following such policies or directions, and Employee fails to cure such failure within 10 business days of such notice; (iii) Employee has engaged in willful, malicious or bad faith conduct materially detrimental to the Company; (iv) Employee has been convicted of any felony; or (v) Employee has materially breached this Agreement.

11.2 Employee shall be deemed disabled if, in the reasonable opinion of the Board of Directors of the Company, as confirmed by competent medical advice, he shall become physically or mentally unable to perform his duties for the Company and such incapacity shall have continued for any period of ninety (90) consecutive days.

11.3 In the event the Company terminates the Employee's employment for any reason other than in accordance with Section 11.1 or in the event of non-renewal of the Employment Period by the Company pursuant to Section 1, then the Company shall pay to the Employee all amounts earned by the Employee pursuant to Section 3 together with any reimbursable amount pursuant to Section 4, plus, provided he signs a release of all claims arising out of his employment with the Company or termination thereof (other than his right to indemnification, which shall survive) in such form as reasonably requested by the Company, severance pay equal to the amount of Base Salary he would have received if he was employed for six months after termination of the Employment Period. Such severance shall be paid in six (6) equal monthly installments, subject to any required withholding, beginning on the first day of the month immediately following the Employee's execution of the aforesaid release, provided, however, that on such date the Employee is in compliance with any and all material provisions that survive the termination of this Agreement. The Company and its affiliated entities shall have no other obligations to the Employee.

(a) For purposes of this Section 11.3, in the event the Employee shall resign from his employment with the Company subsequent to any materially adverse change in his title, nature of duties, powers or responsibilities or employee benefits or a relocation of his primary place of employment from Connecticut or New York or other material breach of this Agreement by the Company, such resignation shall be deemed to be a termination of employment by the Company other than in accordance with Section 11.1.

(b) The Employee shall be under no obligation to mitigate the amount of any payment provided for under this Section 11.3 by seeking other employment or otherwise nor shall such amount be offset by any compensation which the Employee may receive from future employment or otherwise.

7

12. SERVICE AS DIRECTOR.

During the Employment Period, the Employee shall, if elected or appointed, serve as a Director of the Company and/or any affiliate of the Company without receipt of any additional compensation therefor unless otherwise provided by the Board of Directors.

13. STOCK OPTIONS.

On or before the date of this Agreement, the Company shall have granted to Employee options under the PC411, Inc. 1997 Stock Option Plan (the "1997 Plan") to purchase 40,000 shares of the Company's common stock at \$4.00 per share (the "Options"). The Options are intended to constitute Incentive Stock Options (as defined in the 1997 Plan) only to the extent the aggregate Fair Market Value (as defined in the 1997 Plan), as of the date of grant, of the shares of Common Stock with respect to which such options are exercisable for the first time during any calendar year does not exceed \$100,000 or such other amount as specified in Section 422 of the Internal Revenue Code of 1986, as amended. All other Options will be Nonqualified Stock Options (as defined in the 1997 Plan). Subject to the terms and conditions of the 1997 Plan, one third of such options are exercisable upon the consummation of the Company's initial public offering (the "IPO") and one third thereof are exercisable on each of the first and second anniversaries of the IPO, provided the Employee is employed by the Company on such dates. Employee may exercise the Options through a cashless exercise method. As soon as it is practicable, the Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Securities Act of 1933, as amended, the shares of Common Stock issuable to the Employee upon exercise of the Options and the resale thereof by him. In the event New Valley Corporation disposes of any of its shares in the Company, the Company will use its best efforts to take all necessary actions to permit Employee, if he so elects, to dispose of a proportionate percentage of his shares in the Company (or shares he could acquire upon the exercise of his vested options) on the same terms and conditions of those that apply to New Valley Corporation.

14. ASSIGNMENT.

This Agreement, as it relates to the employment of the Employee, is a personal contract and the rights and interests of the Employee hereunder may not be sold, transferred, assigned, pledged or hypothecated. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns, including without limitation, any corporation or other entity into which the Company is merged, irrespective of whether or not the Company is the surviving entity of such merger, or which acquires all of the outstanding shares of the Company's capital stock, or all of

8

substantially all of the assets of the Company, provided, however, any such assignment shall be valid only so long as the Company or its successor is not relieved of any obligation hereunder and so long as the assignee assumes the Company's obligations hereunder. To the extent permitted by law, the Employee shall not have any power of anticipation, alienation or assignment of payments contemplated hereunder, and all rights and benefits of the Employee shall be for the sole personal benefit of the Employee, and no other person shall acquire any right, title or interest hereunder by reason of any sale, assignment, transfer, claim or judgment or bankruptcy proceedings against the Employee.

15. NOTICES.

Any notice required or permitted to be given pursuant to this Agreement shall be deemed given three (3) business days after such notice is mailed by certified mail, return receipt requested, addressed as follows: (i) if to Employee, at 75 Hillwood Drive, Huntington Station, NY 11746; and (ii) if to the Company, at PC411, Inc., 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131, Attention: Chief Financial Officer, or at such other address as either party shall designate by written notice to the other party.

16. GOVERNING LAW.

This Agreement shall be governed by and enforced in accordance with the laws of the State of New York. Any dispute or controversy with respect to this Agreement, other than injunctive relief under Section 10, shall be submitted to

arbitration, in New York City, with the American Arbitration Association. The decision of the arbitrators shall be final and binding upon the parties hereto and may be entered in any court having jurisdiction. The prevailing party in such arbitration proceeding shall be entitled to full reimbursement of the fees, costs and expenses incurred therein.

17. WAIVER.

The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach. If any provision of this Agreement shall be held to be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and not in any way affect or render invalid or unenforceable any other provisions of this Agreement, and this Agreement shall be carried out as if such invalid or unenforceable provision were not part of this Agreement.

18. INDEMNIFICATION.

The Employee shall be entitled to be indemnified by the Company for his actions as an officer, director, employee, agent or fiduciary of the Company or its

9

affiliated entities to the fullest extent permitted by applicable law and shall have legal fees and other expenses paid to him in advance of final disposition of a proceeding provided he executes an undertaking to repay such amounts if, and to the extent, required to do so by applicable law. The Company shall cover the Employee under any directors and officers liability insurance policy to the same extent as its other senior officers.

19. ENTIRE AGREEMENT.

This Agreement constitutes the entire agreement between the parties with respect to the Employee's employment by the Company and there are no representations, warranties or commitments except as set forth herein. This Agreement supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether written or oral, of the parties hereto relating to the transactions contemplated by this Agreement.

20. LOCK-UP AGREEMENT(S).

With respect to any future sale of securities of the Company, the Employee will execute such lock-up agreement(s) as may be required by an underwriter, the NASD, the Securities and Exchange Commission and any state "blue sky" regulators provided, however, that the terms and conditions of such lock-up agreement(s) must be substantially the same in all material respects with any lock-up agreement(s) signed by other officers, directors, and stockholders of the Company.

Executed as an Agreement as of May 14, 1997.

PC411, INC.

/s/ EDWARD A. FLEISS

/s/ ROBERT M. LUNDGREN

Edward A. Fleiss

Robert M. Lundgren
Vice President and
Chief Financial Officer

Employment Agreement dated as of
May 14, 1997 by and between PC411, Inc.
(the "Company") and Edward A. Fleiss (the "Employee")

The Employee represents that he has indicated on this Annex all
Inventions (as defined in the Agreement) in which he owned any right or interest
prior to his employment with the Company. The Employee agrees that any present
or future Inventions not listed in this Annex are subject to assignment under
the Agreement.

BRIEF DESCRIPTION OF INVENTIONS -----	RIGHT, TITLE OR INTEREST AND DATE ACQUIRED -----
Inapplicable	Inapplicable

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