

FORM 10-Q

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

For the quarterly period ended September 30, 1998

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

For the transition period from To

Commission file number: 0-10909

CORNICHE GROUP INCORPORATED  
(Exact name of registrant as specified in its charter)

Delaware 52-2023491  
(State of other jurisdiction of (IRS employer  
incorporation or organization) Identification No.)

601 South Industrial Blvd. 76040  
Suite 220 (Zip code)  
Euless, Texas  
(Address of principal executive office)

Registrant's telephone number, including area code: 817-283-4250

Not Applicable

(Former name, Former address and former fiscal year, if changed since last report)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

6,369,802 shares, \$.001 par value, as of November 12, 1998 (Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date)

Page 1 of 19

CORNICHE GROUP INCORPORATED

SEPTEMBER 30, 1998  
(Unaudited)

I N D E X

	Page No.
Part I - Financial Information:	
Item 1. Consolidated Financial Statements (Unaudited):	
Balance Sheets	
At September 30, 1998 and March 31, 1998 .....	3
Statements of Operations	
For the Three and Six Months Ended	
September 30, 1998 and 1997 .....	4
Statements of Cash Flows	
For the Six Months Ended	
September 30, 1998 and 1997 .....	5

Notes to Consolidated Financial Statements .....	6-13
--	------

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .....	14-17
--	-------

Part II - Other Information:

Item 3 Through Item 9 - Not Applicable.....	18
---	----

Signatures.....	19
-----------------	----

CORNICHE GROUP INCORPORATED

SEPTEMBER 30, 1998  
(Unaudited)

I N D E X

	Page No.
Part I - Financial Information:	
Item 1. Consolidated Financial Statements (Unaudited):	
Balance Sheets	
At September 30, 1998 and March 31, 1998 .....	3
Statements of Operations	
For the Three and Six Months Ended	
September 30, 1998 and 1997 .....	4
Statements of Cash Flows	
For the Six Months Ended	
September 30, 1998 and 1997 .....	5
Notes to Consolidated Financial Statements .....	6-13
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .....	14-17
Part II - Other Information:	
Item 3 Through Item 9 - Not Applicable.....	18
Signatures.....	19

CORNICHE GROUP INCORPORATED

BALANCE SHEETS  
(Unaudited)

A S S E T S

	September 30, 1998 (Consolidated)	March 31, 1998
Current assets:		
Cash and equivalents	\$ 222,251	\$1,129,064
Marketable securities	747,671	-
Other receivables and prepaid expenses	-	179
	-----	-----
Total current assets	969,922	1,129,243
Property and equipment, net	27,143	359
Other assets	12,525	-
License	18,302	-
	-----	-----
	\$1,027,892	\$1,129,602
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Dividends payable - preferred stock	\$ 222,863	\$ 208,464
Accounts payable, accrued expenses and other current liabilities	102,393	51,212
Current portion of capital lease obligation	2,140	-
	-----	-----
Total current liabilities	327,396	259,676
	-----	-----
Capital lease obligation	5,187	-
	-----	-----
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized 5,000,000 shares including: Series A 7% cumulative convertible preferred stock - stated value - \$1.00 per share Authorized - 1,000,000 shares Issued and outstanding - 830,646 shares at September 30, 1998 and 893,908 shares at March 31, 1998	830,646	893,908
Series B convertible redeemable preferred stock, \$.01 par value: Authorized, issued and outstanding at September 30, 1998 - 825,000 shares and zero shares at March 31, 1998	8,250	-
Common stock \$.001 par value, September 30, 1998, \$.10 par value, March 31, 1998 Authorized - 30,000,000 shares Issued and outstanding - 6,369,609 at September 30, 1998 and 6,355,231 at March 31, 1998	6,370	635,522
Additional paid-in capital	2,836,034	2,053,750
Accumulated deficit	( 2,985,991)	( 2,713,254)
	-----	-----
Total stockholders' equity	695,309	869,926
	-----	-----
	\$1,027,892	\$1,129,602
	-----	-----

See accompanying notes to financial statements.

CORNICHE GROUP INCORPORATED

STATEMENTS OF OPERATIONS  
(Unaudited)

	For the Three Months Ended September 30, 1998 (Consolidated)		For the Six Months Ended September 30, 1998 (Consolidated)	
	1998	1997	1998	1997
	-----	-----	-----	-----
Net sales	\$ -	\$ -	\$ -	\$ -
Cost of sales	-	-	-	-
Gross profit	-	-	-	-
General and administrative expenses	128,087	16,233	262,324	137,049
Operating loss	( 128,087)	( 16,233)	( 262,324)	( 137,049)
Interest income - net	6,940	4,309	19,606	128
Net loss before preferred dividend	( 121,147)	( 11,924)	( 242,718)	( 136,921)
Preferred dividend	( 14,376)	( 15,697)	( 30,019)	( 29,386)
Net loss	(\$135,523)	(\$ 27,621)	(\$272,737)	(\$166,307)
Net loss per share of common stock	(\$0.02)	(\$0.01)	(\$0.04)	(\$0.04)
Weighted average number of common shares outstanding	6,369,609	5,295,622	6,367,015	4,195,436

See accompanying notes to financial statements.

CORNICHE GROUP INCORPORATED

STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Six Months Ended September 30, 1997 (Consolidated)	September 30, 1998
Cash flows from operating activities:		
Net loss	(\$ 272,737)	(\$ 166,307)
Adjustments to reconcile net loss to net cash used in operating activities:		
Series B Preferred shares issued for services rendered	6,000	-
Series A Preferred stock dividends	30,019	29,386
Depreciation	1,600	194
Increase (decrease) in cash flows as a result of changes in assets and liability account balances net of effects from purchases of Stamford Insurance Company, Ltd.:		
Other receivables	179	904
Other assets	( 12,525)	-
Accounts payable, accrued expense and other current liabilities	51,083	( 91,573)
Total adjustments	76,356	( 61,089)
Net cash used in operating activities	( 196,381)	( 227,396)
Cash flows from investing activities:		
Investment in marketable securities	( 747,671)	-
Acquisition of property assets	( 18,275)	-
Acquisition of Stamford Insurance Company, Ltd.	( 37,000)	-
Net cash used in investing activities	( 802,946)	-
Cash flows from financing activities:		
Net proceeds from issuance of capital stock	76,500	1,660,500
Payments of capital lease obligation	( 2,783)	-
Payments of notes payable	-	( 450,000)
Additional borrowings	-	50,000
Net cash provided by financing activities	73,717	1,260,500
Net increase (decrease) in cash	( 925,610)	1,033,104
Cash balance acquired with purchase of subsidiary	18,797	-
Cash and cash equivalents at beginning of period	1,129,064	13,167
Cash and cash equivalents at end of period	\$ 222,251	\$1,046,271
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period:		
Income taxes	\$ -	\$ -
Interest	\$ 711	\$ -
Supplemental Schedules of Non-Cash Transactions:		
Issuance of preferred stock for services rendered	\$ 6,000	\$ -
Company asset received under capital lease obligation	\$ 10,110	\$ -
Accrual of dividend on Series A Preferred Stock	\$ 30,019	\$ 29,386

See accompanying notes to financial statements.

CORNICHE GROUP INCORPORATED AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1998  
(Unaudited)

NOTE 1 - THE COMPANY.

Corniche Group Incorporated (hereinafter referred to as the "Company" or "CGI") as a result of a reverse acquisition with Corniche Distribution Limited and its Subsidiaries ("Corniche"), was engaged in the retail sale and wholesale distribution of stationery products and related office products, including office furniture, in the United Kingdom. The operating subsidiaries of Corniche were Chessbourne International Limited ("Chessbourne") and The Stationery Company Limited ("TSCL").

Corniche experienced large operating losses and net cash outflows from operating activities in fiscal 1995 and 1996 resulting in a significant reduction in working capital during the period. The Company was unsuccessful in its efforts to raise interim financing to resolve its liquidity problems. Additionally, the Company was not able to convert a significant portion of its bank debt to equity. As a result, receivers were appointed to Corniche's subsidiaries, Chessbourne and TSCL on February 7, 1996 by their primary bankers and secured lender, Bank of Scotland and Corniche Distribution Limited was placed in receivership on February 28, 1996. Since then the Company has been inactive.

On March 4, 1998, the Company entered into a Stock Purchase Agreement ("Agreement"), approved by the Company's stockholders on May 18, 1998, with certain individuals (the "Initial Purchasers") whereby the Initial Purchasers acquired an aggregate of 765,000 shares of a newly created Series B Convertible Redeemable Preferred Stock, par value \$0.01 per share. Thereafter the Initial Purchasers have been endeavoring to establish for the Company new business operations in the insurance sector, more specifically the property and casualty specialty insurance markets. Management is exploring a number of specialty insurance opportunities for the development of new business operations.

On September 30, 1998, the Company acquired all of the capital stock of Stamford Insurance Company, Ltd. ("Stamford") for \$37,000 in cash in a transaction accounted for as a purchase. Stamford was chartered under the Laws of, and is licensed to conduct business as an insurance company by, the Cayman Islands. From its inception through its acquisition by the Company, Stamford did not generate any revenues but has incurred expenses.

NOTE 1 - THE COMPANY. (Continued)

The unaudited consolidated combined results of operations, on a pro forma basis as though Stamford had been acquired at the beginning of each period, is as follows:

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	1998	1997	1998	1997
Net sales	\$ -	\$ -	\$ -	\$ -
Costs and expenses	\$205,086	\$ 22,223	\$345,502	\$146,058
Net loss	(\$211,380)	(\$ 31,976)	(\$353,134)	(\$171,908)
Net loss per share	(\$0.03)	(\$0.01)	(\$0.05)	(\$0.04)

NOTE 2 - BASIS OF PRESENTATION.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of September 30, 1998 and 1997 and the results of operations and cash flows for the three and six months ended September 30, 1998 and 1997. The results of operations for the three and six months ended September 30, 1998 and 1997 are not necessarily indicative of the results to be expected for the full year.

The March 31, 1998 balance sheet has been derived from the audited financial statements at that date included in the Company's annual report on Form 10-K. These unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

(a) Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (Continued)

## (b) Cash Equivalents:

Short-term cash investments which have a maturity of ninety days or less are considered cash equivalents in the statement of cash flows.

## (c) Marketable Securities:

The Company uses an investment advisory company to invest its funds in highly liquid cash management funds. The market value of the investment approximates cost.

## (d) Property and Equipment:

Property and equipment are depreciated by the straight-line method over the estimated useful lives of the assets, which range principally from three to ten years. Assets held under capital leases are amortized over the life of the lease which approximates its useful life.

## (e) Income Taxes:

Effective October 1993, the Company adopted SFAS 109, "Accounting for Income Taxes", which recognizes (a) the amount of taxes payable or refundable for the current year and, (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an enterprise's financial statement or tax returns. There is no difference as to financial and tax reporting. The deferred tax asset attributable to the Company's \$870,000 net operating loss carryforward has been fully reserved as management can not determine the likelihood of its utilization.

## (f) Fair Value of Financial Instruments:

The Company adopted Statement of Financial Accounting Standards No. 121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". The statement requires that the Company recognize and measure impairment losses of long-lived assets, certain identifiable intangibles, value long-lived assets to be disposed of and long-term liabilities. At September 30, 1998, the carrying values of the Company's other assets and liabilities approximate their estimated fair values.

## (g) Earnings Per Share:

The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share," in the year ended March 31, 1998. Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share, which is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented as it is anti-dilutive in all periods.

## (h) Recently Issued Accounting Pronouncements:

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 - "Reporting Comprehensive Income", No. 131 - "Disclosures about Segments of an Enterprise and Related Information", No. 132 - "Employer's Disclosures about Pension and Other Postretirement Benefits" and No. 133 - "Accounting for Derivative Instruments and Hedging Activities". Management does not believe that the effect of implementing these new standards will be material to the Company's financial position, results of operations and cash flows.

## STOCKHOLDER'S EQUITY.

## (a) 7% Cumulative Convertible Preferred Stock:

In connection with the settlement of the securities class action litigation in 1994, the Company issued 1,000,000 shares of 7% cumulative convertible preferred stock with an aggregate value of \$1,000,000. The following summarizes the terms of 7% cumulative convertible preferred stock as more fully set forth in the Certificate of Designation. The preferred stock has a liquidation value of \$1 per share, is non-voting and convertible into common stock of the Company at a price of \$5.20 per share. Preferred stockholders are entitled to receive a cash dividend of 7% paid semi-annually. The preferred shares are callable by the Company at any time after the first anniversary of issuance, at prices ranging from 101% to 105% of face value. In addition, if the closing price of the Company's common stock exceeds \$13.80 per share for a period of 20 consecutive trading days, the preferred shares are callable by the Company at a price equal to 1% of face value. The Certificate of Designation also states that the holders of the preferred shares may require the Company, subject to certain conditions, to purchase any and all of the outstanding preferred shares at a price of \$1.00 per share at any time commencing December 1, 1999. During the six months ended September 30, 1998, 63,262 shares of the preferred were converted into 12,166 shares of common stock. During the year ended March 31, 1998, holders of 15,359 shares of preferred stock converted such shares into 2,953 shares of the Company's common stock.

## STOCKHOLDER'S EQUITY. (Continued)

## (b) Series B Convertible Redeemable Preferred Stock:

On March 4, 1998, the Company entered into a Stock Purchase Agreement ("Agreement"), approved by the Company's stockholders on May 18, 1998, with certain individuals (the "Initial Purchasers") whereby the Initial Purchasers and two other persons acquired an aggregate of 825,000 shares of a newly created Series B Convertible Redeemable Preferred Stock ("Series B Stock"), par value \$0.01 per share.

Pursuant to the Agreement and subsequent transactions, the Initial Purchasers acquired 765,000 shares of Series B Stock for \$76,500 in cash. The Company will pay certain legal expenses of the Initial Purchasers equaling approximately \$50,000 in connection with the Transaction. In addition, the Company issued 50,000 shares of Series B Stock to Alan Zuckerman as compensation valued at \$5,000 for his assistance to the Company in the identification and review of business opportunities and this transaction and for his assistance in bringing the transaction to fruition. Additionally, the Company issued 10,000 shares of Series B Stock to James Fyfe as compensation valued at \$1,000 for his work in bringing this Transaction to fruition. These issuances diluted the voting rights of existing stockholders by approximately 57%. The total authorized shares of Series B Convertible Redeemable Preferred Stock are 825,000.

The following summarizes the terms of the Series B Stock whose terms are more fully set forth in the Certificate of Designation. The Series B Stock carries a zero coupon and each share of the Series B Stock is convertible into ten shares of the Company's Common Stock. The holder of a share of the Series B Stock is entitled to ten times any dividends paid on the Common Stock and such stock has ten votes per share and vote as one class with the Common Stock. Accordingly, the Initial Purchasers have sufficient voting power to elect all of the Board of Directors. However, the Initial Purchasers are required to vote in favor of Mr. Fyfe or his designee as a director of the Corporation through June 30, 2000.

The holder of any share of Series B Convertible Redeemable Preferred Stock has the right, at such holder's option (but not if such share is called for redemption), exercisable on or after September 30, 2000, to convert such share into ten (10) fully paid and non-assessable shares of Common Stock (the "Conversion Rate"). The Conversion Rate is subject to adjustment as stipulated in the Agreement. Upon liquidation, the Series B Stock would be junior to the Corporation's Series A Preferred Stock and would share ratably with the Common Stock with respect to liquidating distributions.

## (b) Series B Convertible Redeemable Preferred Stock: (Continued)

Pursuant to the terms of the Agreement and the Certificate of Designation, from March 31, 2000 to June 30, 2000, the Company has the right to repurchase or redeem such shares of Series B Stock from the holders for total consideration of \$0.10 per share (\$82,500 in the aggregate) unless, during the period from the date of the closing of the transaction through March 31, 2000,

- (i) the Company's shares of common stock maintain a minimum closing bid price of not less than \$2 per share on a public market during a period of any 10 consecutive trading days, and either
- (ii) the Company raises a minimum of \$2,500,000 of new equity capital through a placement of Common Stock, or
- (iii) the Company has net revenues of at least \$1,000,000 in any fiscal quarter through the fiscal quarter ending March 31, 2000 (collectively, the "Trigger Conditions").

Mr. Fyfe or the director designated by Mr. Fyfe will have the ability to determine if the Company will elect to exercise this redemption right on behalf of the Company.

## (c) Common Stock:

On May 15, 1997, the Company commenced a private securities offering pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended. The offering of up to 400 units, each unit consisting of 10,000 shares of common stock being offered at a price of \$5,000 per unit. The Company used a placement agent for such offering who received a sales commission equal to 10% of the offering price of each unit sold. In connection with the offering, 369 units were sold for gross receipts of \$1,845,000 from which the agent was paid a commission \$184,500 for net of \$1,660,500 to the Company. The proceeds of such offering are intended to be utilized to enable the Company to attempt to effect the acquisition of an operating business entity, for working capital and to pay off the promissory notes and to redeem the common stock purchase warrants issued in the Company's private securities offering which was completed on April 30, 1997.

In March 1998, the Company sold 250,000 shares of common stock at \$.50 per share realizing \$125,000.

The stockholders at the annual meeting held on May 18, 1998, approved the reduction of the par value of the common stock from \$0.10 per share to \$0.001 per share. The par value is being reduced to \$0.001 per share to conform with the new Series B Convertible Redeemable Preferred Stock, as each share of the Series B Convertible Redeemable Preferred Stock par value \$0.01 per share, is convertible into ten (10) shares of common stock.

NOTE 4 - STOCKHOLDER'S EQUITY. (Continued)

(d) Warrants:

The Company has issued common stock purchase warrants from time to time to investors in private placements, certain vendors, underwriters, and directors and officers of the Company.

A total of 101,308 shares of common stock are reserved for issuance upon exercise of warrants as of September 30, 1998.

(e) 1998 Employee Incentive Stock Option Plan:

Under the 1998 Plan, the maximum aggregate number of shares which may be issued under options is 300,000 shares of Common Stock. The aggregate fair market value (determined at the time the option is granted) of the shares for which incentive stock options are exercisable for the first time under the terms of the 1998 Plan by any eligible employee during any calendar year cannot exceed \$100,000. The option exercise price of each option is 100% of the fair market value of the underlying stock on the date the options granted, except that no option will be granted to any employee who, at the time the option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation or any subsidiary unless (a) at the time the options granted, the option exercise price is at least 110% of the fair market value of the shares of Common Stock subject to the option and (b) the option by its terms is not exercisable after the expiration of five years from the date such option is granted.

The Plan will be administered by a committee of disinterested directors of the Board of Directors of the Corporation ("Option Committee").

(f) Independent Directors Compensation Plan:

In order to be able to attract qualified independent directors in the future, the Corporation has adopted the Independent Directors Compensation Plan, pursuant to which each director who is not an officer or employee would receive compensation of \$2,500 plus 500 shares of the Corporation's Common Stock each quarter. The Plan effective as of April 30, 1998.

Independent directors will also continue to be eligible to receive stock options each year under the Director Option Plan at the rate of 1,500 options per year at fair market value.

## OTHER EVENTS.

## (a) Lease of New Office Space:

As of August 1, 1998, the Corporation has entered into a three year lease for business offices of 4,100 square feet in Euless, Texas at an annual rental of \$50,000.

## (b) Investment Contract:

The Corporation has entered into an investment advisory agreement with AIG Global Investment Corporation ("AIG") under which AIG will function as investment advisor and manager of all the Corporation's investable assets. AIG provides management services to all affiliated insurance companies of American International Group and other third-party institutions on a world-wide basis.

## (c) Year 2000:

Even though the Company at the present time does not have any operations, it recognizes the need to ensure that its future operations, if any, will not be adversely affected by Year 2000 software or hardware failures. The Company has not commenced communications with its suppliers, banks, investment advisors, and others with which it presently does, or intends to conduct, business to coordinate Year 2000 conversion. It intends to commence such communications over the next several months.

Since the Company has not been engaged in any business for the past several years, its basic concerns regarding Year 2000 compliance are focused on future operations. The Company is in the process of making the initial assessment of its computer information needs and has just recently ordered its first system hardware which is expected to be delivered shortly. The Company will be further assessing its future software needs. The Company intends to obtain assurances from vendors that the hardware and software which it acquires is Year 2000 compliant.

The Company does not know what impact, if any, Year 2000 non-compliance will have on its financial condition or its contemplated future operations. But based upon the available current information, the Company does not anticipate that, in the aggregate, costs associated with Year 2000 issues will have a material adverse financial impact. However, there can be no assurances that, despite steps which the Company intends to take to insure that it, its future customers, its suppliers and others are free of Year 2000 issues, the Company will not encounter non-compliance issues that could have a material adverse impact on its financial condition and/or its future operations. If, despite the Company's efforts, there are Year 2000 related failures affecting the Company from outside sources, management at the present time does not believe the impact will be substantial.

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

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto contained elsewhere in this Form 10-Q. Certain statements under this caption "Management's Discussion and Analysis of Financial Conditions and Results of Operations," constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Risk Factors-Forward Looking Statements.

PLAN OF OPERATION

Through February 28, 1996, the Company was engaged in the retail sale and wholesale distribution of stationery products and related office products, including office furniture, in the United Kingdom through its two subsidiaries. As a result of large operating losses and cash outflows in 1995 and 1996 receivers were appointed to these subsidiaries in February 1996. Since the liquidation of the subsidiaries by the receivers, the Company has been inactive.

In May 1998, the Company sold to certain individuals through a stock purchase agreement an aggregate of 765,000 shares of a newly created Series B Convertible Redeemable Preferred Stock, par value for 0.01 per share for \$76,500. Following the sale management has been endeavoring to establish for the Company new business operations in the insurance sector, more specifically the property and casualty specialty insurance markets.

The Company's plan of operation for the next twelve months will principally involve the continuation of its endeavors to establish itself in the casualty and property insurance sector. Towards that end, the Company entered into a letter of intent to acquire a domestic insurance carrier. In August 1998, management terminated these negotiations. The Company acquired on September 30, 1998, Stamford Insurance Company, Ltd., an inactive foreign corporation, which is licensed in the Cayman Islands as a casualty and property insurer. The Company intends to use this subsidiary as a reinsurer. Management believes that sufficient reinsurance business is available to be written by the Company subject to, among other things, its ability to raise the requisite capital funding. Depending upon when and if the Company is successful in securing its capital requirements, it may be feasible for the Company to generate operating revenues in or about the middle of 1999. Management is also exploring other opportunities in specialty insurance markets. The Company's future success in developing operations in the insurance sector is dependent upon, among other things, management's ability to obtain sufficient capital funding for its plans.

RESULTS OF OPERATIONS

During the period March 1996 through March 1998, the Company's primary activities have been to engage in three private securities offerings, and to settle and pay off certain of its outstanding liabilities. In May 1998, the stockholders approved the issuance of the Series B Preferred Stock, change in control and new business operations. The losses before net interest income and preferred dividend accrual during the three and six month periods ended September 30, 1998 were \$128,000 and \$262,000 which is an increase of \$111,000 (693.8%) over the three months ended September 30, 1997 and an increase of \$125,000 (91.2%) over the six months ended September 30, 1997. The increase in both current periods arose from increases in general and administrative costs primarily consulting and professional fees of \$40,000, salaries of \$35,000, stockholders annual meeting and general office costs of \$30,000 over the 1997 period amounts.

## RESULTS OF OPERATIONS (Continued)

Although general and administrative costs were relatively the same in the current quarter (\$128,000) as compared to the three months ended June 30, 1998 cost of \$134,000, the current quarter's professional fees decreased \$35,000 and salaries increased \$35,000 as compared to the prior quarter's costs. The general and administrative costs in the quarter ended September 30, 1997 were \$121,000 less than the costs incurred in the quarter ended June 30, 1997. The reduction is attributable to incurring annual stockholder costs and professional fees in the first quarter without any such costs in the subsequent quarter.

Net interest income increased to \$7,000 and \$20,000 in the current three and six periods from \$4,000 and \$0 in the prior year. The increase is the result of income earned from the Company's sales of its securities in October 1997 through May 1998.

The accrual of the preferred dividend remained relatively constant in each period.

Net loss in the current quarter increased by \$108,000 (385.7%) to \$136,000 from \$28,000 in 1997 and the net loss increased \$107,000 (64.5%) in the current six month period to \$273,000 from \$166,000 in the prior year principally from the increased general and administrative costs.

## FINANCIAL CONDITION

The Company's cash position was reduced by \$907,000 from March 31, 1998 to September 30, 1998 due to an increase in investments in marketable securities of \$748,000, the acquisition of property and other assets of \$31,000 and the acquisition of the Company's subsidiary for \$37,000. The purchased subsidiary had cash on the date of acquisition September 30, 1998 of \$19,000.

Even though the acquisition of Stamford may enable the Company to generate limited reinsurance revenues, management's business plan requires additional funding through future sales of the Company's securities and/or other financing alternatives. Management anticipates a continued deterioration in the Company's financial condition in the near term due to ongoing general and administrative costs until the Company raises the sufficient financing to capitalize its insurance business and commence its intended operations. The Company intended to raise capital through a private placement of its securities, and in that regard, the Company had preliminary discussions with potential investors. Based upon these preliminary discussions, the Company has decided to re-evaluate its financing options and may seek to raise funds through different investment vehicles than initially contemplated. There can be no assurance that the Company will be successful in its efforts to raise any funds from any of the options under evaluation or that it will be able to avail itself of other alternative sources of funds.

## LIQUIDITY AND CAPITAL RESOURCES

The Company relied solely on the proceeds from the sales of its securities in October 1997 and May 1998 for the sources of its funds. The Company will need additional capital to implement its business plan.



## LIQUIDITY AND CAPITAL RESOURCES (Continued)

The Company's working capital at September 30, 1998, September 30, 1997 and March 31, 1998 was \$643,000, \$842,000, and \$870,000, respectively. The deterioration of working capital of approximately \$199,000 and \$227,000 from a year and six months ago, respectively primarily resulted from the net loss incurred during the period net of the proceeds from the sale of the Company's securities.

## INFLATION

Inflation has not had a significant effect on the Company's operations or financial position and management believes that the future effects of inflation on the Company's operations and financial position will be insignificant.

## YEAR 2000 COMPLIANCE

Even though the Company at the present time does not have any operations, it recognizes the need to ensure that its future operations, if any, will not be adversely affected by Year 2000 software or hardware failures. The Company has not commenced communications with its suppliers, banks, investment advisors, and others with which it presently does, or intends to conduct, business to coordinate Year 2000 conversion. It intends to commence such communications over the next several months.

Since the Company has not been engaged in any business for the past several years, its basic concerns regarding Year 2000 compliance are focused on future operations. The Company is in the process of making the initial assessment of its computer information needs and has just recently ordered its first system hardware which is expected to be delivered shortly. The Company will be further assessing its future software needs. The Company intends to obtain assurances from vendors that the hardware and software which it acquires is Year 2000 compliant.

The Company does not know what impact, if any, Year 2000 non-compliance will have on its financial condition or its contemplated future operations. But based upon the available current information, the Company does not anticipate that, in the aggregate, costs associated with Year 2000 issues will have a material adverse financial impact. However, there can be no assurances that, despite steps which the Company intends to take to insure that it, its future customers, its suppliers and others are free of Year 2000 issues, the Company will not encounter non-compliance issues that could have a material adverse impact on its financial condition and/or its future operations. If, despite the Company's efforts, there are Year 2000 related failures affecting the Company from outside sources, management at the present time does not believe the impact will be substantial.

#### FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Certain statements included in this report, including the words "believes," anticipates, "expects" and similar expressions, are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrences of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company in this report, as well as the Company's periodic reports on other filings with the Securities and Exchange Commission.

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.

CORNICHE GROUP INCORPORATED  
(Registrant)

By/s/ Robert Hutchins  
Robert Hutchins, President and  
Principal Financial Officer

Date: November 23, 1998

5  
1,000  
U.S. DOLLARS

6-MOS

	MAR-31-1999	APR-1-1998	SEP-30-1998
	1.000		222
		748	
		0	
		0	
		0	
	970		30
		13	
	1,028		
327			0
0			
		839	6
		(149)	
1,028			0
		0	
		0	0
		0	
	262		
	0		
	0		
	(243)		
		0	
(243)			
		0	
		0	0
		(243)	
		(0.04)	
		(0.04)	