SmartPros Ltd.
Form SB-2/A
September 14, 2004

As filed with the Securities and Exchange Commission on September 14, 2004

Registration No. 333-115454

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 4
TO
FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SMARTPROS LTD.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	8299	13-4100476
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

12 SKYLINE DRIVE
HAWTHORNE, NEW YORK 10532
(914) 345-2620
(914) 345-2603 FACSIMILE

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S EXECUTIVE OFFICES)

ALLEN S. GREENE
CHIEF EXECUTIVE OFFICER
SMARTPROS LTD.
12 SKYLINE DRIVE
HAWTHORNE, NEW YORK 10532
(914) 345-2620
(914) 345-2603 FACSIMILE

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

PLEASE SEND COPIES OF ALL COMMUNICATIONS TO:

JOEL J. GOLDSCHMIDT, ESQ.
MORSE, ZELNICK, ROSE & LANDER LLP
405 PARK AVENUE
SUITE 1401
NEW YORK, NY 10022
(212) 838-8269
(212) 838-9190 FACSIMILE

MARK A. VON BERGEN, ESQ.
DAVID C. WANG, ESQ.
HOLLAND & KNIGHT LLP
2300 U.S. BANCORP TOWER
111 S.W. FIFTH AVENUE
PORTLAND, OR 97204
(503) 243-2300
(503) 241-8014 FACSIMILE

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective. |X|

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box. |X|

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. | |

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. | |

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. | |

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. | |

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (SUBJECT TO COMPLETION)
DATED SEPTEMBER 14, 2004

900,000 UNITS

EACH CONSISTING OF TWO SHARES AND ONE WARRANT

[SMARTPROS LOGO]

This is our initial public offering. We are offering 900,000 units, each unit consisting of two shares of common stock and one warrant. Each warrant will entitle its holder to purchase one share of common stock at an exercise price equal to 75% of the initial unit offering price. The warrants are exercisable at any time after they become separately tradable until their expiration date, five years after the date of this prospectus. We may redeem some or all of the public warrants at a price of $0.25 per warrant, at any time beginning six months after this offering, by giving not less than 30 days' notice to the warrant holders, which we may do at any time after the closing price for our common stock on the principal exchange on which the stock trades, for any five consecutive trading days, has equaled or exceeded 100% of the initial unit offering price. We anticipate that the initial public offering price of the units will be in the range of $9.50 - $10.50 per unit.

Initially, only the units will trade. The common stock and the warrants will begin trading separately on the tenth business day following the date on which the representative notifies us and the American Stock Exchange that trading in those securities will commence. Separate trading for the common stock and the warrants may not begin any earlier than the 31st day following the effective date of this offering and may not begin later than the 45th day after the effective date of this offering. Once separate trading in the common stock and warrants begins, trading in the units will cease and the units will be delisted.

We have applied to the American Stock Exchange ("Amex") to list the units, common stock and warrants under the symbols "PED.U," "PED" and "PED.WS," respectively.

INVESTING IN THESE UNITS INVOLVES SIGNIFICANT RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURES IN THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PER UNIT	TOTAL
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us, before expenses	$	$

We have also agreed to pay Paulson Investment Company, Inc., the representative of the underwriters of this offering, a non-accountable expense allowance equal to 3% of the total public offering price of the 900,000 units offered by this prospectus and to issue to it a warrant covering 90,000 units, identical to the units offered by this prospectus, having an exercise price per unit equal to 120% of the initial unit public offering price.

We have also granted Paulson a 45-day option to purchase up to an additional 135,000 units to cover over-allotments.

PAULSON INVESTMENT COMPANY, INC.
NEWBRIDGE SECURITIES CORPORATION
JOSEPH GUNNAR & CO., LLC

The date of this Prospectus is _________, 2004

Unless specified to the contrary or the context indicates otherwise, the use of the pronouns "we," "us," "our," and the like shall be deemed to refer to SmartPros Ltd., its predecessors, its subsidiaries and their respective predecessors.

PROSPECTUS SUMMARY

THIS SUMMARY DESCRIBES WHAT WE BELIEVE ARE THE KEY OR MOST SIGNIFICANT ASPECTS OF OUR BUSINESS AND THIS OFFERING. IT DOES NOT CONTAIN ALL OF THE INFORMATION THAT IS IMPORTANT TO YOU. FOR A MORE COMPLETE UNDERSTANDING OF THIS OFFERING, WE ENCOURAGE YOU TO READ THIS ENTIRE PROSPECTUS, INCLUDING OUR FINANCIAL STATEMENTS AND THE NOTES TO THOSE STATEMENTS. UNLESS INDICATED TO THE CONTRARY, ALL INFORMATION IN THIS PROSPECTUS HAS BEEN RETROACTIVELY ADJUSTED TO REFLECT THE CONVERSION OF ALL OF THE OUTSTANDING SHARES OF OUR SERIES A CONVERTIBLE PREFERRED STOCK INTO SHARES OF COMMON STOCK AND A REVERSE STOCK SPLIT EFFECTIVE ON SEPTEMBER 10, 2004 IN WHICH EACH OUTSTANDING SHARE OF OUR COMMON STOCK WAS CONVERTED INTO 0.5169925 SHARES OF COMMON STOCK.

SMARTPROS

We provide learning solutions for accounting/finance and engineering professionals, as well as ethics and compliance training for the general corporate community. We offer "off-the-shelf" courses and custom designed programs with delivery methods suited to the specific needs of our clients. Our customers include approximately half of the Fortune 500 companies and a large number of midsize and small companies.

Our learning solutions for professionals are designed to meet the initial and ongoing licensing and continuing professional education requirements imposed by state licensing agencies and professional standards organizations. Most of the courses in our accounting/finance library are designed to meet these standards and adhere to the requirements of all state boards of accountancy as well as those of the American Institute of Certified Public Accountants, Financial Executives International, Institute of Management Accountants, Institute of Internal Auditors, the Association of Finance Professionals and the Association of Government Accountants. In the engineering area, most of our courses have been approved for continuing professional development credit by one or more organizations, including the American Society of Civil Engineers, the National Society of Professional Engineers, the American Council of Engineering Companies, the American Society of Mechanical Engineers and the Project Management Institute. Our corporate ethics and compliance training programs are designed to align corporate behavior with applicable laws and regulations, as well as generally accepted codes of conduct. So, for example, our programs may deal with issues prompted by the Sarbanes-Oxley Act of 2002 and the U.S. Federal Sentencing Guidelines, as well laws addressing workplace misconduct such as harassment.

Our products are available in one or more of the following formats: print, videotapes and digital. Digital format can be delivered on CD-ROM, DVD or online. We believe that our learning solutions effectively address the needs of professionals and companies seeking comprehensive learning resources for themselves and their employees. Our solutions are flexible, cost-efficient and easy to use. They alleviate many of the inefficiencies associated with traditional classroom training, such as travel costs, scheduling difficulties and opportunity costs. In addition, we also offer our clients a learning content management system, which allows the professionals and their employers to track usage and performance.

Although we have recorded net losses in each of the last four fiscal years and have cumulative losses in excess of $10 million, over the last three years our financial condition has improved markedly. We have reduced our operating costs and our debt load. We were EBITDA positive in both 2002 and 2003 and reported an operating profit for the first quarter of 2004 and net income for the six month period ended June 30, 2004.

Our objective is to become a leading provider of continuing professional education and corporate training solutions in the United States. Our growth strategy contemplates acquiring other companies that provide learning solutions or their assets, which would enable us to expand our presence in the markets we currently serve or enter into new markets. There are a number of factors that make our acquisition strategy viable. We believe that many of the companies currently providing learning solutions are small and under-capitalized. Also, our senior management team includes experienced mergers and acquisition executives who have demonstrated an ability to identify and acquire companies that have enhanced our product offerings and provided us with a platform for future growth. At the present time, we have no agreements or commitments for any acquisitions. We cannot assure you that we will successfully complete any acquisitions.

3

THE OFFERING

Securities offered	900,000 units, each unit consisting of two shares of common stock and one redeemable common stock purchase warrant. Initially, only the units will trade. The common stock and the warrants included in the units will not trade separately until the tenth business day following the date on which the representative notifies us and the Amex that they will begin trading separately. Separate trading in the common stock and the warrants may not commence any earlier than the 31st day following the effective date of this offering or later than the 45th day following the effective date of this offering. Once separate trading in the common stock and warrants commences, the units will cease trading and will be delisted. When we receive notice from the representative, we will issue a press release announcing the date on which the common stock and warrants will begin separate trading.
Shares of common stock to be outstanding after this offering	5,090,000
Warrants:	
Number to be outstanding after this offering	925,000
Exercise terms	Each warrant entitles its holder to purchase one share of common stock at an exercise price equal to 75% of the initial unit offering price. The warrants are exercisable at any time after they become separately tradable.
Expiration date	__________, 2009
Redemption	We may redeem some or all of the warrants, at any time beginning six months after the effective date of this offering, at a price of $0.25 per warrant, on 30 days notice to the holders. However, we may only redeem the warrants if the closing price for our common stock, as reported on the principal exchange on which our common stock trades, for any five consecutive trading days has equaled or exceeded 100% of the initial unit offering price.
Proposed Amex symbols	Units .... PED.U Common stock ...... PED Warrants .... PED.WS

Risk factors	Please refer to "Risk Factors" for a description of the risk factors you should consider.

Shares and warrants outstanding after this offering takes into account the 25,000 units that we will issue to our attorneys on the date of this offering for legal services rendered in connection with this offering and 40,000 shares of common stock that we will issue to our chief executive officer on the date of this offering, of which 10,000 shares will be fully vested and 30,000 will vest ratably on each of the first, second and third anniversary of the date of this offering.

Unless otherwise stated, the information contained in this prospectus assumes no exercise of:

- the warrants;
- the over-allotment option to purchase up to 135,000 units;
- warrants to purchase 90,000 units granted to the representative in connection with this offering;
- warrants and options outstanding immediately before this offering covering 368,136 shares of common stock.

SUMMARY FINANCIAL INFORMATION

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEM	
	2003	2004	2002	
	(UNAUDITED) (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DA			
STATEMENT OF OPERATIONS DATA:				
Net revenues	$ 4,323	$ 4,592	$ 7,849	$
Gross profit	$ 2,500	$ 2,905	$ 4,205	$
Operating expenses	$ 2,627	$ 2,701	$ 4,907	$
Operating income (loss)	$ (127)	$ 204	$ (702)	$
Net income (loss)	$ (168)	$ 174	$ (797)	$
Net income (loss) per common share (1):				
Basic	$ (.05)	$ .05	$ (.25)	$
Diluted	$ (.05)	$ .05	$ (.25)	$
Weighted average number of shares (1):				
Basic	3,230,037	3,200,000	3,156,929	3
Diluted	3,230,037	3,244,262	3,156,929	3

OTHER DATA:				
Net income (loss)	$ (168)	$ 174	$ (797)	$
Interest expense, net	41	29	95	
Depreciation and amortization	331	346	717	
Earnings before interest, taxes and depreciation	$ 204	$ 549	$ 15	$

The table below sets forth a summary of our balance sheet data as of December 31, 2003 and June 30, 2004 on an actual basis and as adjusted for this offering taking into account the receipt of approximately $7.45 million of estimated net proceeds from this offering and the use of those proceeds to repay outstanding indebtedness.

BALANCE SHEET DATA:	ACTUAL DECEMBER 31, 2003	ACTUAL JUNE 30, 2004	AS ADJUSTED JUNE 30, 2004
		(UNAUDITED) (IN THOUSANDS)	
Current assets	$ 1,338	$ 1,959	$ 8,838
Working capital (deficit)	$(3,578)	$(3,239)	$ 3,640
Total assets	$ 5,182	$ 5,494	$12,373
Total liabilities	$ 5,555	$ 5,692	$ 5,121
Stockholders' equity (deficit) ..	$ (373)	$ (198)	$ 7,252

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(1) Basic and diluted net income (loss) per common share and basic and diluted weighted average common shares outstanding give retroactive effect to the reverse stock split of our common stock and the automatic conversion of the Series A Convertible Preferred Stock into shares of common stock that will take place before this offering is effective.

CORPORATE INFORMATION

We were organized in April 1981 under the laws of Delaware as the Center for Video Education, Inc. Our wholly owned subsidiary, Working Values, Ltd. was formed on March 21, 2003 as WVG Acquisition Corp. under the laws of the Commonwealth of Massachusetts. We do not have any other subsidiaries.

Our principal executive office is located at 12 Skyline Drive, Hawthorne, New York 10532 and our telephone number is (914) 345-2620. Our primary web address is WWW.SMARTPROS.COM. Our subsidiary Working Values has its own Web site at WWW.WORKINGVALUES.COM. Our educational content is delivered through our proprietary learning content management system at HTTP://EDUCATION.SMARTPROS.COM. Except for our Code of Ethics, which will be posted on our Web site once this offering is completed, none of the information on our Web sites is part of this prospectus.

RISK FACTORS

THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. SET FORTH BELOW ARE WHAT WE BELIEVE ARE THE MATERIAL RISKS RELATING TO OUR BUSINESS AND THIS OFFERING. YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW AND THE OTHER INFORMATION IN THIS PROSPECTUS, INCLUDING OUR FINANCIAL STATEMENTS AND THE NOTES TO THOSE STATEMENTS, BEFORE YOU PURCHASE ANY UNITS.

RISKS RELATED TO OUR BUSINESS

WE HAVE NOT RECORDED AN ANNUAL OPERATING PROFIT SINCE 1999. CONTINUING LOSSES MAY EXHAUST OUR CAPITAL RESOURCES AND FORCE US TO DISCONTINUE OPERATIONS.

Our last recorded annual operating profit was for the 1999 fiscal year. From 2000 through 2003, we incurred cumulative losses of $10.2 million. We cannot assure you that we will achieve profitability in 2004 or thereafter.

WE HAVE A SIGNIFICANT WORKING CAPITAL DEFICIENCY. IF THIS TREND CONTINUES, IT MAY BE DIFFICULT FOR US TO OBTAIN THE CAPITAL WE NEED TO GROW OUR BUSINESS.

At June 30, 2004 and December 31, 2003, we had working capital deficits of $3.2 million and $3.6 million, respectively. As a result, if all of our current liabilities were to become due at the same time, we would not be able to pay them in full. Also, because of our working capital deficiency, traditional lending sources tend to consider us a higher credit risk, which limits the amount of credit they are willing to make available to us and increases the cost of that credit. This has adversely impacted our ability to create or acquire new content.

THE INDUSTRY IN WHICH WE OPERATE IS HIGHLY COMPETITIVE AND HAS RELATIVELY LOW BARRIERS TO ENTRY. INCREASED COMPETITION COULD RESULT IN MARGIN EROSION, WHICH WOULD MAKE PROFITABILITY EVEN MORE DIFFICULT TO ACHIEVE AND SUSTAIN.

The market for continuing professional education and corporate training solutions is extremely competitive and the barriers to entry are relatively low. Increased competition could result in reduced operating margins, as well as a loss of market share and brand recognition. Our competitors include public companies, such as SkillSoft plc and Saba Software, Inc. and privately held companies, such as CPA2Biz, Inc. and Bisk Education, Inc. in the accounting area, and Red Vector.com Inc. and NetGen Learning Systems in the engineering market and Integrity-Interactive Corporation, LRN, The Legal Knowledge Company and Corpedia in the general corporate compliance and ethics training market. We also compete with universities (traditional and online) and professional and not-for-profit organizations and associations. Potential competitors include traditional education and publishing companies as well as e-commerce providers. Many of our existing and potential competitors have greater financial resources, larger market share, broader and more varied libraries, technology and delivery systems that are more flexible or cost-effective, stronger alliances and/or lower cost structures than we do, which may enable them to establish a stronger competitive position than we have, in part through greater marketing opportunities. If we fail to address competitive developments quickly and effectively, we will not be able to grow.

IF WE FAIL TO KEEP UP WITH CHANGES AFFECTING THE MARKETS THAT WE SERVE, WE WILL BECOME LESS COMPETITIVE, ADVERSELY AFFECTING OUR FINANCIAL PERFORMANCE.

In order to remain competitive and serve our customers effectively, we must respond on a timely and cost-efficient basis to changes in technology, industry standards and procedures and customer preferences. We need to continuously develop new course material that addresses new developments, laws, regulations, rules, standards, guidelines, releases and other pronouncements that are periodically issued by legislatures, government agencies, courts, professional associations and other regulatory bodies. In some cases these changes may be significant and the cost to comply with these changes may be substantial. For example, the National Registry of CPE Sponsors, known as NASBA, which sets the standards that have been adopted by 36 states, the District of Columbia and Puerto Rico and whose standards have been copied by most of the other states and U.S. Territories, imposed the requirement that, to qualify for continuing professional education credit, beginning in 2003 all new courses designed for self-study must be interactive and beginning in 2004 all courses designed for self-study had to be interactive. Had we not complied with this new requirement, our courses would have been far less attractive to practitioners in the field and our business would have declined appreciably. We cannot assure you that we will be able to adapt to any changes in the future or that we will have the financial resources to keep up with changes in the marketplace. Also, the cost of adapting our products and services may have a material and adverse effect on our operating results.

OUR FUTURE SUCCESS DEPENDS ON RETAINING OUR EXISTING KEY EMPLOYEES AND HIRING AND ASSIMILATING NEW KEY EMPLOYEES. THE LOSS OF KEY EMPLOYEES OR THE INABILITY TO ATTRACT NEW KEY EMPLOYEES COULD LIMIT OUR ABILITY TO EXECUTE OUR GROWTH STRATEGY, RESULTING IN LOST SALES AND A SLOWER RATE OF GROWTH.

Our success depends in part on our ability to retain our key employees including our chief executive officer, Allen S. Greene, and our chief financial officer, Jack Fingerhut. Mr. Greene, who joined us in 2001, is an experienced senior corporate executive who has been instrumental in cutting costs, raising capital and identifying and consummating two acquisitions that have helped us refocus on our competencies. Mr. Fingerhut was a founder of the company and, in addition to his responsibilities as our chief financial officer, is actively involved in sales and marketing and in writing and producing some of our programs. He also has extensive contacts within and knowledge of the accounting profession. Although we have employment agreements with both of these executives, each executive can terminate his agreement at any time. Also, we do not carry, nor do we anticipate obtaining, "key man" insurance on either Mr. Greene or Mr. Fingerhut. It would be difficult for us to replace either one of these individuals. In addition, as we grow we may need to hire additional key personnel. We may not be able to identify and attract high quality employees or successfully assimilate new employees into our existing management structure.

OUR SALES CYCLE CAN BE LONG AND UNPREDICTABLE, WHICH COULD DELAY OUR GROWTH AND MAKE IT DIFFICULT FOR US TO PREDICT EARNINGS. THIS COULD LEAD TO STOCK PRICE VOLATILITY.

Our sales cycle is unpredictable and can last as long as 24 months for large, enterprise wide or custom designed programs. Most of our revenue is derived from corporate customers. Identifying the decision maker in these enterprises is often time consuming. Also, sales of online products, which we believe are essential to our future growth and success, take longer than sales of video or CD-ROM products. Other variables also complicate the purchasing process, including the timing of disbursement of funds and the person-to-person sales contact process. Sales may take much longer than anticipated, may fall outside the approved budget cycle and, therefore, may not occur due to the loss of funding. This unpredictability has, in the past, caused and may, in the future, cause our net revenue and financial results to vary significantly from quarter to quarter.

OUR GROWTH STRATEGY ASSUMES THAT WE WILL MAKE TARGETED STRATEGIC ACQUISITIONS. ACQUISITIONS MAY DISRUPT OUR BUSINESS, DILUTE SHAREHOLDER VALUE OR DISTRACT

MANAGEMENT'S ATTENTION FROM OPERATIONS.

Unless we develop or acquire new content that we can market to our existing and new clients, our rate of revenue growth will continue to be slow and achieving profitability will be slow and difficult. We believe that the quickest and most efficient way for us to acquire new content is through targeted strategic acquisitions. If we fail to execute on this strategy, our revenues may not increase and our ability to achieve significant profitability will be delayed. Until now, our ability to acquire complimentary businesses has been hampered by our limited capital resources and the lack of a public market for our stock.

An acquisition strategy is inherently risky. Some of the risks we may face in connection with acquisitions include:

- identifying appropriate targets in an efficient and timely fashion;
- negotiating terms that we believe are reasonable;
- failing to accurately assess the true cost of entering new markets or marketing new products;
- integrating the operations, technologies, products, personnel and customers of the acquired enterprise;
- maintaining our focus on our existing business;
- losing key employees; and
- reducing earnings because of disproportionately large depreciation and amortization deductions relating to the acquired assets.

We may not be able to identify any appropriate targets or acquire them on reasonable terms. Even if we make strategic acquisitions, we may not be able to integrate these businesses into our existing operations in a cost-effective and efficient manner.

EVEN AFTER THIS OFFERING IS COMPLETED, WE MAY NEED ADDITIONAL CAPITAL FOR EXPANSION PURPOSES. THE AVAILABILITY OF CAPITAL AND THE TERMS ON WHICH IT WILL BE AVAILABLE ARE UNCERTAIN.

We may need to raise additional funds to take advantage of expansion or acquisition opportunities in the future. Other than this offering, we have no arrangements or commitments for additional financings. If we cannot

expand or make acquisitions that we believe are necessary to maintain our competitive position, we may not be able to maintain a reasonable growth rate. If we raise additional capital by selling equity or equity-linked securities, these securities would dilute the ownership percentage of our existing stockholders. Also, these securities could also have rights, preferences or privileges senior to those of our common stock. Similarly, if we raise additional capital by issuing debt securities, those securities may contain covenants that restrict us in terms of how we operate our business, which could also affect the value of our common stock. We may not be able to raise capital on reasonable terms or at all.

OUR STRATEGIC RELATIONSHIPS ARE USUALLY SHORT-TERM, NONEXCLUSIVE ARRANGEMENTS AND OUR STRATEGIC PARTNERS MAY PROVIDE THE SAME OR SIMILAR SERVICES TO OUR

COMPETITORS, DILUTING ANY COMPETITIVE ADVANTAGE WE GET FROM THESE RELATIONSHIPS.

We rely on our strategic partners to provide us with access to content as well as to sell our content. Our strategic partners may and some have entered into identical or similar relationships with our competitors, which could diminish the value of our products. Our strategic partners could terminate their relationship with us at any time. While we do not depend on any single strategic relationship for a significant amount of revenue or to develop content, if a number of these organizations were to terminate their relationship with us at the same time, our ability to develop new content on a timely basis and our ability to distribute content would be impaired. We may not be able to maintain our existing relationships or enter into new strategic relationships.

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY ADEQUATELY OR COST EFFECTIVELY, WHICH MAY CAUSE US TO LOSE MARKET SHARE OR REDUCE OUR PRICES.

Our success depends in part on our brand identity and our ability to protect and preserve our proprietary rights. We cannot assure you that we will be able to prevent third parties from using our intellectual property rights and technology without our authorization. We do not own any patents on our technology. Rather, to protect our intellectual property, we rely on trade secrets, common law trademark rights, trademark registrations, copyright notices, copyright registrations, as well as confidentiality and work for hire, development, assignment and license agreements with our employees, consultants, third party developers, licensees and customers. However, these measures afford only limited protection and may be flawed or inadequate. Also, enforcing our intellectual property rights could be costly and time-consuming and could distract management's attention from operating business matters.

RISKS RELATED TO THIS OFFERING

WE ARE CONTROLLED BY A LIMITED NUMBER OF STOCKHOLDERS, WHICH WILL LIMIT YOUR ABILITY TO INFLUENCE THE OUTCOME OF KEY TRANSACTIONS.

Immediately after this offering, our executive officers will, in the aggregate, own 24.1% of the issued and outstanding shares of our common stock, or 23.1% if the over-allotment option is exercised in full. As a result, these stockholders will have the ability to exercise substantial control over our affairs and corporate actions requiring stockholder approval, including electing and removing directors, selling all or substantially all of our assets, merging with another entity or amending our certificate of incorporation. This de facto control could be disadvantageous to our other stockholders with interests that differ from those of the control group. For example, the control group could delay, deter or prevent a change in control even if a transaction of that sort would benefit the other stockholders. In addition, concentration of ownership could adversely affect the price that investors might be willing to pay in the future for our securities.

IF AN ACTIVE MARKET DOES NOT DEVELOP FOR OUR STOCK, YOU MAY NOT BE ABLE TO SELL YOUR SHARES.

Before this offering, there has been no public market for our common stock and we cannot assure you that a regular trading market will develop after the offering or that the market price of our common stock will not decline below the initial public offering price. The initial public offering price of the common stock will be determined through negotiations between the underwriters and us. Numerous factors, many of which are beyond our control, may cause the market price of the common stock to fluctuate significantly. These factors include announcements of technological innovations, customer orders of new products, our earnings releases, market conditions in the industry and the general state of the securities markets. In addition, quarterly fluctuations of our results of operations may also affect the market price of the common stock.

WE DO NOT ANTICIPATE PAYING DIVIDENDS IN THE FORESEEABLE FUTURE. THIS COULD MAKE OUR STOCK LESS ATTRACTIVE TO POTENTIAL INVESTORS.

We anticipate that we will retain all future earnings and other cash resources for the future operation and development of our business and we do not intend to declare or pay any cash dividends in the foreseeable future. Future payment of cash dividends will be at the discretion of our board of directors after taking into account many factors, including our operating results, financial condition and capital requirements. Corporations that pay dividends may be viewed as a better investment than corporations that do not.

IF WE DO NOT MAINTAIN AN EFFECTIVE REGISTRATION STATEMENT OR COMPLY WITH APPLICABLE STATE SECURITIES LAWS, YOU MAY NOT BE ABLE TO EXERCISE THE WARRANTS.

In order for you to be able to exercise the warrants, the underlying shares must be covered by an effective registration statement and qualify for an exemption under the securities laws of the state in which you live. We cannot assure you that we will continue to maintain a current registration statement relating to the offer and sale of the warrants included in the units and the common stock underlying those warrants, or that an exemption from registration or qualification will be available throughout their term. This may have an adverse effect on the demand for the warrants and the prices that can be obtained from reselling them.

THE WARRANTS MAY BE REDEEMED ON SHORT NOTICE. THIS MAY HAVE AN ADVERSE IMPACT ON THEIR PRICE.

We may redeem the warrants for $0.25 per warrant on 30 days notice at any time after the closing price for our stock, as reported on its principal trading market, has, for any five consecutive trading days, equaled or exceeded 100% of the initial unit offering price. If we give notice of redemption, you will be forced to sell or exercise your warrants or accept the redemption price. The notice of redemption could come at a time when it is not advisable or possible for you to exercise the warrants or a current prospectus or exemption from registration or qualification does not exist.

FUTURE SALES OR THE POTENTIAL FOR SALE OF A SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK COULD CAUSE THE TRADING PRICE OF OUR COMMON STOCK AND UNIT WARRANTS TO DECLINE AND COULD IMPAIR OUR ABILITY TO RAISE CAPITAL THROUGH SUBSEQUENT EQUITY OFFERINGS.

Sales of a substantial number of shares of our common stock in the public markets, or the perception that these sales may occur, could cause the market price of our stock to decline and could materially impair our ability to raise capital through the sale of additional equity securities. Once this offering is completed, in addition to the 5,090,000 shares of common stock actually issued and outstanding, there will be another 2,492,403 shares of common stock reserved for future issuance as follows:

o 925,000 shares underlying the warrants, including the warrants underlying the units we will issue to our attorneys in connection with this offering;

- 405,000 shares underlying the over-allotment option, including the shares underlying the warrants included in the units underlying that option;

- 270,000 shares underlying the representative's warrants, including the shares underlying the unit warrants includable in the representative's warrants;

- 882,319 shares reserved for issuance under our 1999 stock option plan; and

- 10,084 shares issuable upon exercise of warrants outstanding on the date of this prospectus.

The common stock included in the units as well as the common stock underlying the warrants, other than those shares held by "affiliates," as defined by the rules and regulations promulgated under the Securities Act of 1933, will be freely tradable without restriction. Before this offering, we had 3,290,000 shares of common stock outstanding, including the 50,000 shares of common stock that we will issue to our attorneys and the 40,000 shares of common stock that we will issue to our chief executive officer on the date of this offering. All of these shares are "restricted securities" as defined in Rule 144 promulgated under the Securities Act of 1933; 1,135,082 shares, including 1,085,082 held by "affiliates," can only be sold in compliance with the timing and volume limitations of Rule 144 promulgated under the Securities Act of 1933 and 2,154,918 shares may be sold without limitation under Rule 144(k). Stockholders owning in excess of 3 million "restricted" shares, or 96%, including our executive officers and directors, have agreed not to sell any shares of stock for a period of one year after this offering without the consent of the representative of the underwriters. The representative may waive that restriction in its sole discretion.

THE EXISTENCE OF OUTSTANDING OPTIONS AND WARRANTS MAY IMPAIR OUR ABILITY TO OBTAIN ADDITIONAL EQUITY FINANCING.

The existence of outstanding options and warrants may adversely affect the terms at which we could obtain additional equity financing. The holders of these options and warrants have the opportunity to profit from a rise in the value or market price of our common stock and to exercise them at a time when we could obtain equity capital on more favorable terms than those contained in these securities.

MANAGEMENT HAS BROAD DISCRETION OVER THE USE OF PROCEEDS FROM THIS OFFERING. WE MAY USE THE PROCEEDS OF THIS OFFERING IN WAYS THAT DO NOT IMPROVE OUR OPERATING RESULTS OR THE MARKET VALUE OF OUR SECURITIES.

While we have general expectations as to the allocation of the net proceeds of this offering, that allocation may change in response to a variety of unanticipated events, such as differences between our expected and actual revenues from operations or availability of commercial financing opportunities, unexpected expenses or expense overruns or unanticipated opportunities requiring cash expenditures. We have significant flexibility as to the timing and the use of the proceeds. You will rely on our judgment with only limited information about our specific intentions regarding the use of proceeds. We may spend most of the net proceeds of this offering in ways with which you may not agree. If we fail to apply these funds effectively, our business, results of operations and financial condition may be materially and adversely affected. Also, we may not be successful in investing the net proceeds from this offering in our operations or external investments to yield a favorable return.

IT MAY BE DIFFICULT FOR A THIRD PARTY TO ACQUIRE US, AND THIS COULD DEPRESS OUR STOCK PRICE.

Delaware corporate law and our restated certificate of incorporation and bylaws contain provisions that could delay, defer or prevent a change in control of our company or our management. These provisions could discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. For example:

- Without prior stockholder approval, the Board of Directors has the authority to issue one or more classes of preferred stock with rights senior to those of common stock and to determine the rights, privileges and inference of that preferred stock.

- There is no cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates.

- Stockholders cannot call a special meeting of stockholders.

- Our bylaws establish advance notice requirements for submitting nominations for election to the Board of Directors and for proposing matters that can be acted upon by stockholders at a meeting.

- Our Board of Directors is divided into three classes, which makes it significantly more difficult for someone to gain control in a contested proxy fight.

FORWARD-LOOKING STATEMENTS

Some of the statements made in this prospectus discuss future events and developments, including our future business strategy and our ability to generate revenue, income and cash flow. In some cases, you can identify forward-looking statements by words or phrases such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," "our future success depends," "seek to continue," or the negative of these words or phrases, or comparable words or phrases. These statements are only predictions that are based, in part, on assumptions involving judgments about 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 our control. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various facts, including the risks outlined in this "Risk Factors" section. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We do not undertake to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

USE OF PROCEEDS

The principal purposes of this offering are to raise capital to allow us to acquire and develop new content and to respond quickly to new competitive and business developments and to repay debt. Assuming a public offering price of $10.00 per unit and after deducting the estimated underwriting discount of $720,000, a non-accountable expense allowance of $270,000 and estimated offering expenses of $560,000, we estimate that the net proceeds to us from this offering will be approximately $7.45 million, or $8.7 million if the representative exercises the over-allotment option in full. We expect to use the net proceeds as follows:

USE OF PROCEEDS	APPROXIMATE AMOUNT	APPROXIMATE PERCENTAGE
Repayment of debt	$ 571,000	7.7%
Development of new content	500,000	6.7
Capital expenditures	100,000	1.3
Working capital	6,279,000	84.3
Total	$7,450,000	100.0%

REPAYMENT OF DEBT. This amount reflects the outstanding principal balance of all indebtedness evidenced by notes, debentures and other debt instruments as of June 30, 2004 held by JPMorgan Chase Bank, Freshstart Venture Capital Corp., James Brodie and Bigan Saliani. It does not include the repayment of any capital lease obligations. The note payable to James Brodie, having an outstanding principal balance of $52,000, bears interest at 9% and is due and payable out of the proceeds of this offering. The note payable to Bigan Saliani, having an outstanding principal balance of $24,000, was issued in November 2003 in connection with the repurchase of stock from a stockholder and matures in October 2004. The JPMorgan Chase indebtedness matures in 2006 and currently bears interest at the rate of 5.5%. The Freshstart indebtdness matures in 2006 and 2008 and currently bears interest at the rate of 11.75% and 9.25%, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" for a more detailed description of these obligations.

DEVELOPMENT OF NEW CONTENT. This amount reflects the cost of developing new content that can be offered to a broad client base or that can serve as the basis of a customized program for a specific client. Initially, we expect that our focus will be to develop new content for our engineering library and for Working Values. To develop this new content we may use our internal resources or we may hire third party contractors. In these cases, the cost will primarily be the salaries and benefits payable to our employees who develop the content or the consulting fees payable to the contractors. We may also purchase specific existing content, as opposed to purchasing content in the context of a larger acquisition of a group of assets, from third parties. In this case, in addition to the cost of the content itself, there may be additional costs relating to modifying the content so that it will qualify for continuing professional education credit and so that it can be delivered over our technology platform. We have not yet made any final determination as to how much we will spend on specific content or what content we will create, although we have had some general discussions internally and with existing and potential clients as to what content they would like us to offer. In addition, we have not contracted with any third parties to create new content for us and we have not investigated the availability of specific content for purchase.

CAPITAL EXPENDITURES. This amount consists primarily of property, plant and equipment, such as computer and communications equipment, needed to support an increase in business activity. It also includes the cost of upgrading our accounting software should we determine that an upgrading is necessary. It may also includes the capitalized portion of the costs to further upgrade, enhance and improve the functionality of our proprietary learning content management system that are properly capitalizable under applicable accounting principles.

WORKING CAPITAL. The majority of the net proceeds of this offering will be used for working capital and general corporate purposes, including acquisitions. The costs to be incurred in connection with acquisitions include not only the consideration for the assets or property acquired but also any related legal, accounting, investment banking and due diligence costs. We believe that the most efficient way for us to grow, expanding our share of the markets we currently serve and entering into new markets, is through strategic acquisitions. We may acquire an entire business entity or a group of assets, depending on business, economic and financial considerations. Our focus will be on acquisitions that will enable us to increase the size of our content offerings and/or expand our customer base. In addition to the markets we currently serve, we will use acquisitions to penetrate new market segments such as insurance, financial services and healthcare. Currently, we have no agreements or commitments to make any acquisitions. We may also use the proceeds allocated to working capital for general corporate purposes and to reduce our accounts payable and accrued expenses. We may also use a portion of these proceeds to hire additional sales and marketing personnel if we deem that to be necessary. If the representative exercises the over-allotment option, the additional net proceeds, approximately $1.25 million, will be added to working capital.

The above information represents our best estimate of our capital requirements based upon the current status of our business. We will retain broad discretion in the allocation of the net proceeds within the categories listed above. The amounts actually expended for these purposes may vary significantly and will depend on a number of factors, including our rate of revenue growth, cash generated by operations, evolving business needs, changes in demand for our products, the cost to develop or acquire new programs for our libraries, our marketing efforts, competitive developments, new strategic opportunities, general economic conditions and other factors that we cannot anticipate at this time.

Pending their use, we intend to invest the net proceeds of this offering in interest-bearing, investment grade securities, or, if necessary to avoid being designated an Investment Company under the Investment Company Act of 1940, United States government securities.

We expect that the net proceeds from this offering, when combined with cash flow from operations, will be sufficient to fund our operations and capital requirements for at least 12 months following this offering. We may be required to raise additional capital through the sale of equity or other securities sooner if our operating assumptions change or prove to be inaccurate. We cannot assure you that any financing of this type would be available. In the event of a capital inadequacy, we would be required to limit our growth and the expenditures described above.

DIVIDEND POLICY

We have not declared or paid any dividends in the last two years, and we do not intend to pay any dividends in the foreseeable future. We intend to retain any future earnings for use in the operation and expansion of our business. Any future decision to pay dividends on common stock will be at the discretion of our board of directors and will be dependent upon our fiscal condition, results of operations capital requirements and other factors our board of directors may deem relevant.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2004 on an actual basis and as adjusted for this offering, taking into account the receipt of $7.45 million of estimated net proceeds from this offering and the application of those proceeds to repay debt, the 25,000 units that we will issue to our attorneys upon the completion of this offering and the 40,000 shares of common stock that we will issue to our chief executive officer on the date of this offering, of which 10,000 shares will be fully vested and 30,000 will vest ratably on each of the first, second and third anniversary of the date of this offering.

	JUNE 30, 20
	ACTUAL
	(IN THOUSAND
Debt:	
Notes and other indebtedness	$571
Capital lease obligations	134
Total debt	$705
Stockholders' equity (deficit):	
Preferred stock, $.001 par value, 1,000,000 shares authorized, no shares issued and outstanding	$ --
Common stock, $0.0001 par value, 30,000,000 shares authorized; 3,258,006 shares issued and 3,200,000 shares outstanding actual; and 5,108,006 shares issued and 5,090,000 shares outstanding as adjusted	1
Common stock in treasury, at cost--58,006 shares	(220)
Additional paid-in capital	10,213
Accumulated (deficit)	(9,992)
	$ 2
Note receivable from stockholder	(200)
Total stockholders' equity (deficit)	$ (198)
Total capitalization	$ 507

The information in the table set forth above gives retroactive effect to the reverse split of our common stock and the automatic conversion of our Series A Convertible Preferred Stock into shares of common stock that will take place before this offering is effective. In addition, the information in the table set forth above assumes no exercise of (i) outstanding options or warrants, (ii) warrants issued in this offering, (iii) the over-allotment option or (iv) the representative's warrant.

DILUTION

If you purchase units in this offering, your interest will be diluted to the extent of the excess of the public offering price per share of common stock over the as adjusted net tangible book value per share of common stock after this offering. Net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities, divided by the total number of shares of common stock outstanding. For purposes of the dilution computation and the following tables, we have allocated the full purchase price of a unit to the shares of common stock included in the unit and none to the warrant.

At June 30, 2004, we had a negative net tangible book value of approximately $2.8 million, or approximately a negative $0.87 per share. After giving effect to the sale of the units in this offering at the assumed initial public offering price of $10.00 per unit and taking into account the 25,000 units we will issue to our attorneys upon completion of this offering, our net tangible book value of June 30, 2004 would have been approximately $4.7 million, or $0.92 per share. This represents an immediate increase of $1.79 per share to existing stockholders and immediate dilution of $4.08 per share to the new investors who purchase units in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share	
Pro forma net tangible book value per share at June 30, 2004	$(0.87)
Increase in pro forma net tangible book value per share attributable to new investors	1.79

Net tangible book value per share after the offering	
Dilution per share to new investors	

The following table summarizes as of December 31, 2003 the differences between the existing stockholders and the new investors with respect to the number of shares purchased, the total consideration paid and the average price per share paid:

	SHARES PURCHASED	TOTAL CONSIDERATION

	NUMBER	PERCENT	AMOUNT	PERCENT
Existing stockholders	3,290,000	64.6%	$10,213,000	53.2%
New investors	1,800,000	35.4%	9,000,000	46.8%
Total	5,090,000	100.0%	$19,214,000	100.0%

The table set forth above takes into account the shares of common stock underlying the units that we will issue to our attorneys in connection with this offering, which will be accounted for as a cost of this offering, and the 40,000 shares that we will issue to our chief executive officer on the date of this offering of which 10,000 shares will vest immediately and 10,000 shares will vest on each of the first, second and third anniversary dates of this offering.

If the representative exercises the over-allotment option in full, the new investors will purchase 2,070,000 shares of common stock. In that event, the gross proceeds from this offering will be $10,350,000, representing approximately 50.3% of the total consideration for 38.6% of the total number of shares of common stock outstanding, and the dilution to new investors would be $3.89 per share.

To the extent any options or warrants outstanding on the date of this prospectus that have an exercise price of less than $5.00 per share are exercised, you will experience further dilution.

14

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The statement of operations data for each of the years in the two-year period ended December 31, 2003 and the balance sheet data at December 31, 2003 are derived from our audited financial statements, which are included elsewhere in this prospectus. The statement of operations data for each of the three months ended June 30, 2003 and 2004 and the balance sheet data at June 30, 2004 are derived from unaudited financial statements included elsewhere in this prospectus. Historical results are not necessarily indicative of the results to be expected in the future.

STATEMENT OF OPERATIONS DATA:

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEM
	2003	2004	2002
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DA		

Net revenues	$ 4,323	$ 4,592	$ 7,849
Cost of revenues	1,823	1,687	3,644
Gross profit	2,500	2,905	4,205
Selling, general and administrative	2,295	2,355	4,190
Depreciation and amortization	331	346	717
Total operating expenses	2,627	2,701	4,907
Operating income (loss)	(127)	204	(702)
Other income (expense), net	(41)	(30)	(95)
Income (loss) before provision for income taxes	$ (168)	$ 174	$ (797)
Provision for income taxes	--	--	--
Net income (loss)	$ (168)	$ 174	$ (797)
Net income (loss) per common share (1):			
Basic	$ (.05)	$ .05	$ (.25)
Diluted	$ (.05)	$ .05	$ (.25)
Weighted average number of shares (1):			
Basic	3,230,037	3,200,000	3,156,929
Diluted	3,230,037	3,244,262	3,156,929

BALANCE SHEET DATA:

	DECEMBER 31, 2003
	(IN THOUSA
Current assets	$ 1,338
Working capital (deficit)	$(3,578)
Total assets	$ 5,182
Total liabilities	$ 5,555
Stockholders' equity (deficit)	$ (373)

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(1) Basic and diluted net (loss) per common share and basic and diluted weighted average common shares outstanding give retroactive effect to the reverse stock split of our common stock and the automatic conversion of the Series A Convertible Preferred Stock into shares of common stock that will take place before this offering is effective.

15

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We provide learning solutions for accounting/finance and engineering professionals and governance and ethics training for the general corporate community. Accounting/finance continuing professional education was our original market. This market covers corporate accountants and financial managers as well as accountants in public practice. Initially, our accounting/finance programs were delivered on videotape. In 1998, we recognized that, to remain competitive, we would have to make our products available in digital format for distribution over the Internet and corporate intranets. Towards that end, we hired information technology professionals to build a new media department that, among other things, would convert our programs to digital format for online delivery and who would oversee the development of a learning content management system.

To take advantage of financing opportunities that were then available to technology companies, we were advised to pursue an acquisition strategy that focused on building revenues and diversifying into new markets. Based on assurances we received from a specific financing source, we identified several viable acquisition targets, including Virtual Education Corporation, or VEC, a provider of license preparation and continuing professional development programs for engineers. However, the dynamics of the capital markets changed and our financing source was unable to raise any funds. At that point, we had already consummated our acquisition of VEC.

The acquisition of VEC put a tremendous strain on our internal capital resources. Although the accounting business continued to grow and generate operating profits, overall we began losing money. In the four-year period beginning in 2000 and ending in 2003, we generated over $10 million of losses. In 2001, we hired a new chief executive officer, Allen S. Greene, who had been the chief operating officer of a publicly traded specialty finance company. Over the next three years, Mr. Greene successfully refocused the company on its core competencies, cut overhead, substantially reduced debt and raised additional equity capital. By the end of 2003, we had narrowed our annual losses to $315,000 and were EBITDA positive for the second consecutive year. For the six months ended June 30, 2004 we reported a net profit of $174,000.

Since 2001, we have successfully completed two key acquisitions. The aggregate purchase price for the assets we acquired in these transactions was $1.1 million in cash, stock (based on the value at the time of the acquisition) and assumption of liabilities. The sellers of these assets had collectively raised more than $30 million to develop these assets and fund their operations. First, in May 2001, we acquired substantially all of the assets of Pro2Net. In so doing, we acquired a library of "how to" programs, a functional learning content management system that we could market with our programs, customer lists, trade names and computer hardware. As a result, we were able to terminate a contract with a third party to develop a learning content management system, saving us approximately $2 million in development costs. Our ability to provide the value-added services represented by the learning management system is, we believe, key to our recent revenue growth and future success.

Second, in April 2003, we acquired a library of custom-designed integrity-based courses and other assets from Working Values Group Ltd., a company that specialized in building custom-designed learning solutions for the general corporate community using traditional and alternative instructional techniques. As part of the transaction, we also hired the development team from Working Values Group. With the increased focus on corporate governance and ethics and the passage of the Sarbanes-Oxley Act of 2002 along with new rules and regulations adopted by the national stock exchanges and markets, we believe that there is a significant growth opportunity in supplying training that addresses corporate culture as a significant risk factor.

Currently, our products are available in multiple formats, including downloadable print, videotape and digital. Digital formats are used to deliver our products over the Internet, which has become our fastest growing delivery channel, and on CD-ROM and DVD. Online delivery capability has attracted new and existing subscribers. This has had a positive effect on our revenue as well as our gross margins since online sales eliminate the cost for materials, i.e., videotapes, boxes and shipping.

Most of our revenue is in the form of subscription fees for one of our monthly accounting update programs. Other sources of revenue include direct sales of programs on a non-subscription basis, fees for various services, including web design, software development, tape duplication, video production, video conversion, course design and development, ongoing maintenance of a SmartPros Professional Education Center, and licensing fees. Subscriptions are billed on an annual basis, payable in advance and deferred at the time of billing and amortized into revenue on a monthly basis. Sales made over the Internet are by credit card only. Renewals are usually sent out 60 days before the subscription period ends. Larger transactions are usually dealt with by contract, the financial terms of which depend on the services being provided. Contracts for development and production services typically provide for a significant upfront payment and a series of payments based on deliverables specifically identified in the contract.

We measure our operations using both financial and other metrics. The financial metrics include revenues, gross margins, operating expenses and income from continuing operations. Other key metrics include (i) revenues by sales source, i.e., accounting/finance, engineering, Working Values and video production and e-commerce, (ii) online sales, (iii) cash flows and (iv) EBITDA.

Some of the most significant trends affecting our business are the following:

- The increasing recognition by professionals and corporations that they must continually improve their skills and those of their employees in order to remain competitive.

- The plethora of new laws and regulations affecting the conduct of business and the relationship between a corporation and its employees.

- The increased competition in today's economy for skilled employees and the recognition that effective training can be used to recruit and train employees.

- The development and acceptance of the Internet as a delivery channel for the types of products and services we offer.

Limited capital and the lack of a marketable security have retarded our growth. Once this offering is complete, these limitations will have been alleviated. We believe that the most effective way for us to increase our rate of growth will be to use our capital and publicly traded stock to make acquisitions and that many acquisition opportunities will be available to us. Even now, as a result of a number of factors, including the highly fragmented nature of the industry in which we operate and our size and our reputation, we frequently receive notice of acquisition opportunities. In addition, we may engage brokers, bankers and/or finders to help us identify suitable acquisition opportunities.

We are not currently negotiating with any potential acquisition targets or candidates. However, we intend to focus on acquisitions that will allow us increase the breadth and depth of our current product offerings, including the general corporate market for compliance, governance and ethics. We will also consider acquisitions that will give us access to new market segments such as insurance, health care and financial services. We prefer acquisitions that are accretive, as opposed to those that are dilutive, but ultimately the decision will be based on maximizing shareholder value rather than short-term profits. The size of the acquisitions will be determined, in part, by our size, the capital available to us and the liquidity and price of our stock. We may use debt to enhance or augment our ability to consummate larger transactions.

There are many risks involved with acquisitions. Many of these risks are discussed in the "Risk Factors" section of this prospectus. These risks include integrating the acquired business into our existing operations and corporate structure, retaining key employees and minimizing disruptions to our existing business. We cannot assure you that we will be able to identify appropriate acquisitions opportunities or negotiate reasonable terms or that any acquired business or assets will deliver the shareholder value that we anticipated at the outset.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements that have been prepared according to accounting principles generally accepted in the United States. In preparing these financial statements, we are required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We evaluate these estimates on an ongoing basis. We base these estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. We consider the following accounting policies to be the most important to the portrayal of our financial condition.

REVENUES

Revenues from subscription services are recognized as earned. Video subscriptions are generally billed on an annual basis, while on-line subscriptions are paid by credit card at point of sale. Both of these types of sales are deferred at the time of billing or payment and amortized into revenue on a monthly basis over the term of the subscription, which is generally one year. Engineering products are non-subscription based and revenue is recognized upon shipment of the product or, in the case of on-line sales, payment. Revenues from non-subscription services provided to customers, such as web-site design, video production, consulting services and custom projects are generally recognized on a proportional performance basis where sufficient information relating to project status and other supporting documentation is available. The contracts may have different billing arrangements

resulting in either unbilled or deferred revenue. We usually obtain either a signed agreement or purchase orders from our non-subscription customers outlining the terms and conditions of the sale or service to be provided. Otherwise, these services are recognized as revenues after completion and delivery to the customer. Duplication and related services are generally recognized upon shipment or, if later, when our obligations are complete and realization of receivable amounts is assured.

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Fixed, tangible assets are carried at cost less accumulated depreciation and are depreciated using the straight-line method over the estimated useful lives, which range from 3 years for course content to 10 years for customer lists. Leasehold improvements are amortized over the lesser of their estimated lives or the life of the lease. Major expenditures for renewals and improvements are capitalized and amortized over their useful lives.

IMPAIRMENT OF LONG-LIVED ASSETS

We review long-lived assets and certain intangible assets annually for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered.

STOCK-BASED COMPENSATION

We have adopted the disclosure only requirements of SFAS No. 123. As a result, no compensation costs are recognized for stock options granted to employees. Options and warrants granted to non-employees are recorded as an expense at the date of grant based on the then estimated fair value of the security in question.

RESULTS OF OPERATIONS

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2004 AND 2003

We experienced a significant improvement in operating performance in the first six months of 2004 compared to the first six months of 2003. Most significant was the fact that we reported our first net profit in more than four years. The following table compares our statement of operations data for the first six months of 2003 and 2004. The trends suggested by this table may not be indicative of future operating results, which will depend on various factors including the relative mix of products sold (accounting/finance, engineering or corporate training) and the method of sale (video or online).

	SIX MONTHS ENDED JUNE 30			
	2003		2004	
	AMOUNT	AS A PERCENTAGE OF NET REVENUES	AMOUNT	AS A PERCENT OF NE REVENU
	(ALL DOLLAR AMOUNTS ARE IN THOUS			
Net revenues	$4,323	100.0%	$4,592	100.0
Cost of revenues	1,823	42.2	1,687	36.7
Gross profit	2,500	57.8	2,905	63.3
Selling, general and administrative	2,295	53.1	2,355	51.3
Depreciation and amortization	331	7.7	346	7.5

Total operating expenses	2,627	60.8	2,701	58.8
Operating income (loss)	(127)	(2.9)	204	4.4
Other (expense), net	(41)	(1.0)	(30)	(0.6
Net income (loss)	$ (168)	(3.9)%	$ 174	3.8

NET REVENUES

Net revenues for the six months ended June 30, 2004 increased 6.2% compared to net revenues for the six months ended June 30, 2003. Online sales continue to be an important factor contributing to our overall revenue growth, a trend that began in 2003. In the 2004 period, net revenues from online sales accounted for approximately $1.14 million, or 25%, of our net revenues. In the 2003 period, online sales accounted for $895,000, or 21%, of our net revenues.

Net revenues from sales of our accounting and finance products grew in both absolute terms and as a percentage of total revenues. In the first six months of 2004, net revenues from our accounting/finance products were $3.3 million compared to $3.0 million in the first six months of 2003. This increase was due in part to a subscription price increase that went into effect on January 1, 2004 and to an increased level of sales. For the first six months of 2004, net revenues from accounting/finance products includes subscription-based revenue of $3.1 million and direct sales of course material on a non-subscription basis, net revenues from custom work and advertis-

18

ing of $200,000. For the first six months of 2003, subscription-based revenue was $2.8 million and direct sales of course material on a non-subscription basis, custom work and advertising was $215,000.

Net revenues from sales of our engineering products, which are not subscription-based, were $251,000 in the first half of 2004 compared to $266,000 in the comparable 2003 period. This decrease is primarily attributable to a $38,000 sale to a reseller of our courses made in the first half of 2003 that did not recur in the first half of 2004. On the other hand, sales to federal and state transportation and highway agencies of our Professional Engineering (PE) exam review course increased in 2004 compared to 2003. Sales to these agencies in the first six months of 2004 were $50,600 compared to $8,000 in the first six months of 2003.

For the first six months of 2004, Working Values contributed $375,000 to net revenues. Working Values primarily engages in providing either consulting services or custom products for its clients and recognizes its revenue on a proportional performance basis. Working Values did not commence operations until April 2003 and its sales in the second quarter of 2003 were $99,000. We expect revenues from Working Values to continue to increase in 2004.

Net revenues from video production, duplication and consulting and e-commerce services for the first six months of 2004 were $645,000 compared to $992,000 for the first six months of 2003, continuing a trend that began in 2003. This decline is attributable to the same factors that are discussed below in connection with 2003.

COST OF REVENUES

Cost of revenues includes the salaries, benefits and other costs related to personnel, whether our employees or independent contractors, who are used directly in production, including producing our educational programs; royalties paid to third parties; the cost of materials, such as videotape and packaging supplies; and shipping costs. Compared to the first six months of 2003, cost of revenues in the first half of 2004 decreased in both absolute terms and as a percent of net revenues. The decrease is primarily attributable to a $53,000 reduction in production costs and a $100,000 reduction in royalty payments. The reduction in production costs was realized even though 2004 includes six months of operations for Working Values while 2003 only includes three months of operations for Working Values. There are many different types of expenses that are characterized as production costs and many of them vary from period to period depending on many factors. In the case of the first six months of 2003 and 2004, the expenses that showed the greatest variations and the reasons for those variations were as follows:

- OUTSIDE LABOR AND DIRECT PRODUCTION COSTS. Outside labor includes the cost of hiring actors and production personnel such as directors, producers and cameramen. The cost of actors increased by $2,400 while the cost of production personnel decreased by $22,000. Direct production costs, which are costs relating to producing videos other than labor costs, such as the cost of renting equipment and locations, decreased $20,000. These variations are related to the type of video production projects and do not reflect any trends in our business.

- SALARIES. Overall, payroll and related costs attributable to production personnel increased by $6,000. Most of this increase was attributable to Working Values, $23,000, and our technology group, $47,000. On the other hand compensation payable to video duplication production personnel decreased by $64,000. Most of this decrease is attributable to the fact that the head of our video duplication department resigned in October 2003.

- TRAVEL AND ENTERTAINMENT; SHIPPING. Travel and entertainment expenses increased by $2,000 reflecting our diligence in controlling costs. Shipping costs decreased by $4,000 reflecting a reduction in shipping rates also achieved through negotiations with our shipping vendors.

As our business grows we may be required to hire additional production personnel, increasing our cost of revenues.

Royalty expense decreased in the first six months of 2004 as compared to the first six months of 2003 for a number of reasons. First, we terminated one of our royalty agreements in late 2003 with a reseller of our CPA exam review course. Second, royalty payments to two other partners decreased because sales through these partners decreased. Third, we renegotiated our rates with one of our strategic partners, resulting in a saving of approximately $50,000. Ultimately, the savings we realize under these new agreements will depend on the volume of sales. Assuming the same level of sales in 2004 as in 2003, our royalty payments under these agreements will be reduced by approximately $50,000. However, if volume increases, the actual royalty payments in 2004 under these agreements will be higher than they were in 2003. Finally, for the first six months of 2003 we overestimated our obligations to certain of our strategic partners to the extent of $50,000. Also, it will take a full year to see the full impact of our new royalty rates because we reflect the entire royalty payment at the time of the sale even though a significant portion of the subscription revenue is deferred.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include normal corporate overhead such as compensation and benefits for administrative, sales and marketing and finance personnel, rent, insurance, professional fees, travel and entertainment and office expenses. While general and administrative expenses in the first six months of 2004 increased in absolute terms compared to the first six months of 2003, as a percentage of net revenues they decreased. The increase in absolute terms is primarily attributable to the Working Values overhead, which offset reductions in our professional fees, savings in our communication costs and other operating expenses. We anticipate that general and administrative expenses will begin to increase once this offering is complete as a result of increased accounting, legal and insurance costs. The full effect of these additional costs will not be felt until 2005.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses were higher in the first half of 2004 than they were in the comparable 2003 period, although as percentage of net revenues they were the same. The increase is attributable to the fact that in 2003 we acquired $270,000 of depreciable and amortizeable assets, including the assets acquired by Working Values. We have also begun to amortize the capitalized costs related to the Sarbanes-Oxley toolkit product developed in 2003. In addition, many of our older assets are either fully or almost fully depreciated. We expect our depreciation and amortization expenses to increase as we realize the full effect of the asset acquisitions and capitalized costs that were made in 2003 and additional assets are acquired as needed.

INCOME/LOSS FROM OPERATIONS

For the first six months of 2004 net income from operations was $204,000 compared to a $127,000 loss from operations in the comparable period of 2003. This is primarily attributable to our ability to increase net revenues without significantly increasing the cost of revenues and our operating expenses.

OTHER EXPENSES

Other income and expense items consist of interest paid on indebtedness and interest earned on deposits. The decrease in our net interest expense is due primarily to our continuing efforts to pay down debt and the general reduction in interest rates.

NET INCOME AND LOSS

For the six months ended June 30, 2004 we recorded a net profit of $174,000 compared to a net loss of $168,000 for the six months ended June 30, 2003. The change from a net loss to a net profit is attributable to increased revenue and our continuing efforts to reduce our costs and expenses.

COMPARISON OF YEARS ENDED DECEMBER 31, 2003 AND 2002

We saw a significant improvement in our operating performance in 2003 compared to 2002. Most significant were the increase in our gross margins and the decrease in our net loss. The following table compares our statement of operations data for the years ended 2003 and 2004. The trends suggested by this table may not be indicative of future operating results, which will depend on various factors including the relative mix of products sold (accounting/finance, engineering or corporate training) and the method of sale (video or online).

	YEARS ENDED DECEMBER 31,			
	2002		2003	
	AMOUNT	AS A PERCENTAGE OF NET REVENUES	AMOUNT	AS A PERCENTAG NET REVE
	(ALL DOLLAR AMOUNTS ARE IN THOU			
Net revenues	$7,849	100.0%	$8,580	100
Cost of revenues	3,644	46.4	3,484	40
Gross profit	4,205	53.6	5,096	59
Selling, general and administrative	4,191	53.4	4,663	54
Depreciation and amortization	717	9.1	676	7
Total operating expenses	4,907	62.5	5,338	62
Operating (loss)	(702)	(8.9)	(243)	(2
Other (expense), net	(95)	(1.2)	(72)	(0
Net (loss)	$ (797)	(10.1)%	$ (315)	(3

NET REVENUES

Net revenues for 2003 increased 9.3% compared to net revenues for 2002. An important factor contributing to our overall revenue growth was online sales. In 2003, net revenues from online sales accounted for approximately $1.8 million, or 21% of our revenues. In 2002, online sales accounted for $1.1 million, or 14% of revenues.

Sales of our accounting/finance products grew in both absolute terms and as a percentage of total revenues, offsetting any declines in our other products. In 2003, net revenues from sales of our accounting/finance products were $6.2 million compared to $4.9 million in 2002. The 2003 amount includes subscription sales of $5.5 million, direct sales on a non-subscription basis of $250,000 and revenue from custom work and advertising of $407,000. The increase in accounting/finance revenues reflects price increase for subscriptions and for direct sales that we imposed in 2003 as well as increased sales.

Revenues from our engineering products declined from $453,000 in 2002 to $381,000 in 2003. Most of this decline is attributable to a reduction in sales to federal and state transportation and highway agencies of our Professional Engineering (PE) Exam Review course that they purchase for their staff engineers. In 2003, sales to these federal and state agencies generated $10,000 of revenues compared to $64,000 in 2002. In 2003 the U.S. Department of Transportation failed to secure approval for a new budget. Since a portion of the budget is allocated to the various state departments of transportation, these agencies eliminated our product from their 2003 budgets. New budgets were approved in early 2004 and, as a result, various federal and state agencies resumed their purchases of the PE Exam Review course in 2004.

In 2003 we did not realize any significant revenue from Working Values during the nine months of operations. During this time Working Values was focused primarily on developing new non-company specific course materials that it can market to the general corporate market. In addition, due to general economic conditions, the market for corporate governance, ethics and compliance training products and services was slow as many corporations were still feeling the effects of the latest recession and were operating in a cash conservation mode.

Revenues from video production, duplication, consulting and e-commerce declined from $2.5 million 2002 to $1.9 million in 2003. This decline is due to a number of factors, including the fact that revenue is credited to the originating department regardless of the type of service that is performed. For example, a contract to convert videotapes to digital format is credited to the accounting department if that is where the sale originated, even if the technology group performed all the services necessary to fulfill the terms of that contract. Other factors contributing to the decline in this revenue include:

- the general decline in the videotape industry reflecting the popularity of digital formats such as CD-ROM and DVD;
- in 2003 we terminated the head of video department, which led to some client defections;
- the maturity of the web;
- increased competition for web design services; and
- a sluggish economy.

Despite the decline in revenues, our video and technology departments continue to operate at full capacity producing videotapes and web-enabled programs for our accounting and engineering departments. At this time we cannot predict whether the trend of declining revenues from these departments will continue.

COST OF REVENUES

Compared to 2002, cost of revenues in 2003 declined in both absolute terms and as a percentage of revenues. These declines reflect our ongoing efforts to improve gross margins and achieve profitability. Specifically, the decrease in cost of revenues is due to the following factors:

- a decrease of $145,000 in direct production costs, most of which related to the technology group;

- a decrease of $82,000 in the cost of materials, principally raw tape, as a result of the increase in online sales and the decline in our video duplication business;
- a decrease of $26,000 in salaries; and
- a decrease of $11,000 in shipping, which is attributable to the increase in online sales.

Offsetting these reductions was an increase of $38,000 in our outside labor costs and an increase of $58,000 in royalty payments. Most of the $50,000 increase in royalty payments was attributable to new royalty arrangements that we entered into in 2003 - one with the American Institute of Certified Public Accountants and one with the Association of Government Accountants.

GENERAL AND ADMINISTRATIVE EXPENSES

In 2003, general and administrative expenses increased in both absolute terms and as a percentage of revenues when compared to 2002. A portion of this increase was attributable to legal fees expensed in 2003 that related to a lawsuit brought by two former employees in California. A jury rendered judgment in our favor on the plaintiff's claims. Legal fees and related costs incurred in 2003 in connection with this lawsuit were $150,000. The balance of the increase was attributable to Working Values' overhead.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses were lower in 2003 than in 2002. This decrease was attributable to the fact that some of our assets were fully depreciated in 2002 and we did not record a full year's depreciation and amortization for any new assets acquired in 2003. In 2004, we expect our depreciation and amortization expenses to increase, as we realize the full effect of the following transactions that took place in 2003:

- we acquired, by purchase and/or lease, $270,000 of depreciable and amortizeable assets; and
- we capitalized $181,000 of personnel and other costs relating to developing products for Working Values, which we will begin amortizing in 2004.

LOSS FROM OPERATIONS

The reduction is attributable to the fact that revenues increased at a faster rate, 9.3%, than did operating expenses, 8.8%, and cost of revenues decreased by 4.4%.

OTHER EXPENSES

Other income and expense items consist of interest paid on indebtedness and interest earned on deposits. The decrease in our net interest expense is due primarily to our continuing efforts to pay down debt and our ability to refinance our bank loan with JPMorgan Chase at a significantly lower rate of interest.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our working capital requirements through internally generated funds, sales of equity and debt securities and proceeds from short-term bank borrowings.

Our working capital deficit as of June 30, 2004 was approximately $3.2 million and as of December 31, 2003 was approximately $3.6 million. Our current ratio at June 30, 2004 and December 31, 2003 was .38 to 1 and .27 to 1, respectively. The current ratio is derived by dividing current assets by current liabilities and is a measure used by lending sources to assess our ability to repay short-term liabilities. The largest component of our current liabilities, $3.9 million at June 30, 2004 and $3.4 million at December 31, 2003, is deferred revenue, which is revenue collected or billed but not yet earned under the principles of revenue recognition. Most of this revenue is in the form of subscription fees and will be earned over the next 12 months. The cost of fulfilling our monthly subscription obligation does not exceed this revenue and is booked to expense as incurred. For some of our products, there are no additional costs, other than shipping costs, required to complete this obligation as the material is already in our library.

For the six months ended June 30, 2004, net cash generated by operating activities was approximately $450,000 and we had a net cash increase of $212,000. For the year ended December 31, 2003, net cash generated by operating activities was approximately $904,000 and we had a net cash increase of $184,000. The primary components of our operating cash flows are our net loss adjusted for non-cash expenses, such as depreciation and amortization, and the changes in accounts receivable, accounts payable and deferred revenues.

Capital expenditures for the six months ended June 30, 2004 were approximately $37,000, of which $27,000 constituted equipment purchases and $10,000 equipment leases. Cash used in investing activities for the year ended December 31, 2003 was approximately $473,000, which included $187,000 in new equipment purchases and $105,000 of acquisition costs relating to the Working Values assets. In addition, we capitalized $181,000 of costs relating to developing new courses for our Working Values library. We do not anticipate any significant capital expenditures relating to equipment purchases over the next 12 months.

For the six months ended June 30, 2004 we made debt principal payments of approximately $215,000 and incurred a new capital lease obligation of $10,000. In 2003 we made debt principal payments of approximately $335,000 but incurred new debt of $218,000, which includes a $100,000 term loan and $118,000 capital lease facility. At quarter-end, our total indebtedness for borrowed money, including capital lease financings, was approximately $800,000, which consisted of the following:

- JPMORGAN CHASE BANK. This was a line of credit that was restructured in 2003 into a term loan. At the time of the restructuring, the balance due was $410,000. We reduced the principal to $360,000 and paid all accrued but unpaid interest through February 2003. The restated balance of the loan, $360,000, is payable in 36 equal monthly installments of $10,000 plus accrued interest calculated at the rate of prime plus 1.5%, or 6.0% currently. At June 30, 2004 the balance was $200,000.

- FRESHSTART VENTURE CAPITAL CORP. In August 2001 we borrowed $500,000 on a secured basis from Freshstart, an affiliate of Medallion Financial Corp., the former employer of our chief executive officer. This loan is payable in 60 equal monthly installments of $8,333.33 with interest computed at a rate equal to the prime rate plus 5%, adjusted monthly. The interest rate may never be less than 11.75% or higher than 13%. The current rate is 11.75%. At June 30, 2004 the balance was $217,000.

- FRESHSTART VENTURE CAPITAL CORP. In May 2003 we borrowed an additional $100,000 on a secured basis from Freshstart at 9.25%. The funds were used to upgrade our video production facility. This loan is payable in 60 equal monthly installments of $1,666.33 with interest computed at a rate equal to the prime rate plus 5%, adjusted monthly. The interest rate may never be less than 9.25% or higher than 11%. The current rate is 9.25%. At June 30, 2004 the balance was $78,000.

- JAMES BRODIE. This liability was assumed in connection with our acquiring Virtual Education Corporation in March 2000. The original amount of the debt was $78,000. The balance due at June 30, 2004 was $52,000. The note bears interest at 9% per annum and matures November 30, 2005. The note is fully payable out of the proceeds of a public offering.

- BIGAN SALIANI. In October 2003 we agreed to repurchase 30,037 shares of common stock from a former employee. The total purchase price for these shares is $72,000, payable in 12 equal monthly installments beginning November 30, 2003. At June 30, 2004 the balance was $24,000.

- IDB LEASING. In 2003 we leased $118,000 of new computer and video equipment, through IDB Leasing. The leases are being repaid over 48 and 36 months with monthly payments of $2,055 and $996, respectively. The imputed interest rate on these leases is 7.0% and 7.5%, respectively. In addition, we incurred a new capital lease obligation of $10,000 in January 2004. This lease has a term of 36 months and an imputed interest rate of 6.05%. The balance on that lease at June 30, 2004 was $8,400. At June 30, 2004 the balance on all three leases was $99,000.

- The Company has other outstanding capital leases, the balances of which were $35,000 at June 30, 2004.

In addition to the foregoing, as of June 30, 2004 we had commitments under operating leases - principally the leases for executive offices in Hawthorne, New York and the Working Values executive offices in Sharon, Massachusetts - aggregating $2.8 million through 2010. In May 2004 we paid $92,000 in connection with our termination of a sublease in Irvine, California. Finally, in connection with our acquisition of the Working Values assets, the seller is entitled to receive up to $200,000 of additional consideration if Working Values attains specific performance objectives during the two-year period following the acquisition. At June 30, 2004 none of this contingent consideration had been earned.

The net proceeds from this offering will be used primarily for general corporate and working capital needs. We anticipate that most of the proceeds will be used to develop and/or acquire new content and businesses that our complementary to ours. We believe that the net proceeds of this offering together with cash flow from operations and the proceeds from other financings will be sufficient to meet our working capital and capital expenditure requirements for the next 12 months.

In the future, we may issue additional debt or equity securities to satisfy our cash needs. Any debt incurred or issued may be secured or unsecured, at a fixed or variable interest rates and may contain other terms and conditions that our board of directors deems prudent. Any sales of equity securities may be at or below current market prices. We cannot assure you that we will be successful in generating sufficient capital to adequately fund our liquidity needs.

SEASONALITY AND CYCLICALITY

Historically, the fourth quarter has been our strongest in terms of revenue generation. This is due to the fact that most of our subscriptions follow the calendar year and renewals are mailed out 60 days before the end of the year. Also, for internal budgeting reasons, corporate clients tend to defer their decisions to the end of the year.

In general, since most of our business relates to continuing professional education and is non-discretionary, we do not believe that business cycles have a material impact on our financial performance. Adverse business conditions and developments, however, would negatively affect the performance of Working Values and the ability of our video production and consulting departments to generate revenues independently.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" was issued. The statement requires that an issuer classify financial instruments that are within its scope as a liability. Many of those instruments were classified as equity under previous guidance. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. We are currently evaluating the provisions of this statement, and do not believe that it will have an impact on our consolidated financial statements.

BUSINESS

We provide learning solutions for accounting/finance and engineering professionals, two large vertical markets with mandatory continuing education requirements. We also provide corporate governance, ethics and compliance training for the general corporate market. Our products are available in multiple formats, including downloadable print, videotape and digital. Digital format is used to deliver our products on CD-ROM, DVD and online. Our solutions provide a flexible, cost-efficient and effective format, improved ease of use and enhanced product/user support and administrative functionality. In addition, they alleviate many of the inefficiencies associated with traditional classroom training, including travel costs, scheduling difficulties and opportunity costs. In the professional markets, our learning solutions are designed to meet the licensing and continuing professional education requirements imposed by various state agencies and professional organizations. In the general corporate market, our training solutions are designed to meet corporate learning objectives regarding issues of integrity and corporate culture.

CORPORATE HISTORY

We were organized in April 1981 under the laws of Delaware as the Center for Video Education, Inc. In 1998 we changed our name to Creative Visual Enterprises, Ltd. ("CVE"). In January 2000 we changed our name to KeepSmart.com, Inc. and in June 2001 we changed our name to SmartPros Ltd. Our wholly owned subsidiary, Working Values, Ltd. was formed on March 21, 2003 under the name WVG Acquisition Corp under the laws of the Commonwealth of Massachusetts. The name change was effective April 4, 2003.

In October 1999, in connection with a pending merger with Virtual Education Corporation, a California corporation ("VEC California"), we organized a new company, also named Virtual Education Corporation, under the laws of Delaware ("VEC Delaware") solely for the purpose of holding all of the stock of both CVE and VEC California. Eventually, both CVE and VEC California merged into VEC Delaware. VEC Delaware never engaged in any business before the merger and all of its shareholders were the historical shareholders of CVE and VEC California based on the relative values of those two entities as agreed to in the merger transaction. VEC California provided continuing professional education programs to the engineering profession. We did not have any relationship with VEC or any of its affiliates before the merger.

In May 2001, we purchased some of the assets of Pro2Net Corporation, formed in 1998 under laws of the State of Washington. Pro2Net provided continuing professional education programs to accounting and finance professionals. The assets we purchased included course content, customer lists, a functioning learning content management system, and computer hardware. In April 2003, through our wholly owned subsidiary, Working Values, we acquired assets, particularly course content and customer lists, from The Working Values Group Ltd., a Massachusetts corporation. The principal stockholder of The Working Values Group was David Gebler who, as part of the transaction, joined us as President of Working Values. We did not have any relationship with Pro2Net or The Working Values Group, or any of their respective affiliates, before these acquisitions.

INDUSTRY BACKGROUND

The accounting and finance market includes certified public accountants, certified management accountants, certified internal auditors and other accounting professionals, as well as corporate accounting, finance and management professionals, most of whom have mandatory continuing education requirements. According to the Bureau of Labor Statistics, in 2002 there were over two million accountants and finance professionals in the United States. Based on the fact that the American Institute of Certified Public Accountants claims it has over 300,000 members representing approximately 60% of all the certified public accountants in the United States, we estimate there are currently more than 500,000 accountants that require continuing professional education credit to maintain their CPA licenses and hundreds of thousands of other financial management professionals that require continuing professional education credit to maintain their certifications.

To maintain their licenses, accounting professionals must satisfy the continuing professional educational requirements mandated by the State Boards of Accountancy of the states in which they practice. Although states may differ in terms of specific course requirements or the cycle of the licensing period, every state as well as the District of Columbia and the U.S. Territories, other than Wisconsin and the Virgin Islands, which do not have any continuing professional education requirement, requires at least 40 hours of continuing professional education credit annually to maintain an accounting license. In addition, in terms of whether a particular course will qualify for CPE credit, 36 states, the District of Columbia and Puerto Rico accept courses offered by the National Registry of CPE Sponsors, also known as NASBA. The remaining states, other than Wisconsin, and U.S.

Territories, other than the Virgin Islands, have standards that mirror those of NASBA. In effect, a course offered by a NASBA registered sponsor will qualify for CPE credit in 49 out of 50 states, the District of Columbia and the U.S. Territories other than the Virgin Islands.

According to the Bureau of Labor Statistics, in 2002 there were 1.5 million engineers in the United States, as well as over 600,000 construction managers and engineers. In addition, there are over 475,000 engineering technicians who may need additional specialized training. All 50 states require engineers to take and pass a certification exam to become a licensed professional engineer. The basic entry-level exam, Fundamentals of Engineering, is given twice each year, in April and October. According to the National Council of Examiners for Engineering and Surveying, in 2003 over 42,000 engineers sat for the exam and less than 75% passed. In addition, engineers who pass the Fundamentals of Engineering exam must then take a second exam to be licensed as a professional engineer in a specific area such as civil engineering or mechanical engineering. For example, the Professional Engineering, or PE, exam for civil engineering is the highest level exam for civil engineers. This exam is also given twice a year, in April and October. According to NCEES, in 2003, 16,000 engineers sat for this exam and only 52% passed.

Currently, 26 states require licensed professional engineers to complete a minimum number of professional development hours to maintain their professional licenses. In November 2004, Illinois will become the 27th state to establish minimum professional development requirements. Unlike the accounting and finance market where there is a reasonable amount of uniformity, in the engineering market each of the states requiring professional development hours sets its own standards. The number of hours required by the states varies from 16 per year to 30 every two years. In most instances, the states rely on various professional organizations to certify whether a particular course qualifies for professional development credit.

Over the last few years, legislators, government and market regulators, the investment community and the general public have become more aware of issues involving corporate governance, ethics and compliance. This awareness results in allegations of sexual harassment, accounting fraud and mismanagement, excessive executive compensation, breach of fiduciary duties and insider trading at some of the largest corporations, mutual funds and market specialists as well as the New York Stock Exchange. In some cases, corporate mismanagement and misbehavior have resulted in substantial investor losses and fines, penalties or damages. In response to some of these occurrences, Congress passed the Sarbanes-Oxley Act of 2002, which imposes certain corporate governance standards on publicly traded companies and authorizes the national exchanges and other regulatory bodies to impose their own strict standards. As a result, public companies, mutual funds, market specialists and corporations in general are more accountable to their stockholders and regulatory overseers and the public. We anticipate that corporate spending on compliance and ethics training programs will increase.

Although professional and corporate training has historically been dominated by traditional classroom instruction, advances in communications technology are changing the manner in which corporate training is developed, delivered and tracked. In addition, competition demands that professionals spend more of their time on revenue-generating matters. The increasing demands made on professionals and corporate managers have led and, we believe, will continue to drive the demand for continuing professional education and corporate training solutions that are available in multiple, flexible and cost-effective formats.

OUR BUSINESS

Our business is designed to satisfy the growing needs of:

- professionals and their employers to comply with initial and continuing professional education requirements in a flexible cost-effective manner;

- businesses to provide their employees and managers with training programs addressing corporate governance, ethics and compliance issues; and

- professionals and businesses to be able to track and monitor their and their employees' compliance with continuing education requirements and to assess the effectiveness of their educational programs.

To address these needs, we have over 1,200 hours of programs that currently are available in one or more formats including videotape, CD-ROM or online -- approximately 1,000 in accounting/finance, 200 in engineering and 11 in Working Values. We also have hundreds of hours of archived programs that are available upon request. In addition, we develop customized courses based on specifications provided to us by our clients. Most of our courses are designed to accommodate both group and self-study.

All of our courses in the accounting and finance professional libraries are designed to meet the standards and adhere to the requirements of all state boards of accountancy as well as those of the American Institute of Certified Public Accountants (AICPA), Institute of Management Accountants (IMA), Institute of Internal Auditors (IIA), the Association of Financial Professionals (AFP) and the Association of Government Accountants (AGA). We are a registered sponsor of continuing professional education with NASBA and in New York and Illinois, the only two states that have not adopted the NASBA standards. NASBA also confers the status of

Quality Assurance Service on organizations that offer self-study courses that meet the requisite standards. We have met those standards and received that status. As a result, our designated programs qualify for continuing professional education credit in all fifty states for certified public accountants, certified management accountants, certified internal auditors and certified financial managers.

Our engineering products include courses that are designed to help prepare engineers for the basic entry level licensing exam and the civil engineering professional engineer licensing exam as well as courses that are designed to meet the ongoing professional development requirements mandated by various states. We generally jointly develop with or license these programs from an independent third party. Most of our engineering courses are available both in CD-ROM format and online.

Our Working Values subsidiary develops ethics and compliance training programs for corporations and other organizations. These programs are designed to align workplace behavior with legal standards and prevailing community expectations regarding corporate conduct. We also develop training techniques and strategies focusing on modular development of resources that track specific risk areas identified by the client. Our library of customizable communication and learning tools and templates, in digital and print formats, enables us to develop training and communication solutions and strategies tailored to the unique corporate cultures of the client at competitive price points. The result is an integrated program that more closely reflects the unique culture of, and the specific issues facing, the client organization while still maintaining the cost advantages of a generic solution.

We have relationships with a number of professional organizations and societies that we believe are strategic either because we have co-marketing or co-branding arrangements with them or because we jointly develop products with them. While no single relationship is material to overall business, if all of these relationships were to terminate simultaneously, our competitive position in the market place would be adversely affected. The partners and the nature of our relationship with them are as follows:

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. We have a joint production and marketing arrangement with the AICPA for the AICPA Practice Report and AICPA Practice Pro. We produce the product with the AICPA assi