

SmartPros Ltd.  
Form 10-K  
March 24, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2014

or

Transition Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-32300

SMARTPROS LTD.

(Name of Registrant in its Charter)

Delaware

13-4100476

(State or other jurisdiction of incorporation or organization)

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

12 Skyline Drive, Hawthorne, New York 10532

(Address of Principal Executive Office) (Zip Code)

(914) 345-2620

Issuer's Telephone Number Including Area Code

Securities registered under Section 12(b) of the Exchange Act:

Title of Each  
Class

Name of Each Exchange on Which  
Registered

Common Stock, par value \$.0001 per share

NASDAQ Capital Market

Securities registered under Section 12(g) of the Exchange Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$8,015,531 based on the price at which the common equity was last sold, or the average bid and ask price of such common equity on the Nasdaq Capital Market as of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares outstanding of each of the registrant's classes of common equity, as of March 23, 2015:  
4,590,013

#### DOCUMENTS INCORPORATED BY REFERENCE

The information in response to Part III of this Report are incorporated herein by reference to the registrant's Definitive Proxy Statement, to be filed on or before April 30, 2015, with respect to its 2015 Annual Meeting of Stockholders.

SMARTPROS LTD.  
Form 10-K Annual Report  
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## FORWARD LOOKING STATEMENTS

Certain statements made in this Annual Report on Form 10-K are “forward-looking statements” within the meaning of Section 21E of the Securities and Exchange Act of 1934 regarding the plans and objectives of management for future operations and market trends and expectations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving the continued expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

Forward-looking statements in this report include statements relating to our operating results, the development of new products, the timing of the launch of such products and the timing of any revenue to be generated from such products as well as statements regarding our plans for acquisitions. Whether or not our expectations regarding such forward-looking statements are ultimately realized depends on such factors as our ability to increase revenues, control costs, complete the development of new products in a timely manner and on budget, our ability to successfully market our products, general economic conditions and our ability to successfully identify acquisition candidates and our ability to successfully complete those acquisitions and integrate the newly acquired business into our existing operating and business platform.

The terms “we,” “our,” “us,” or any derivative thereof, as used herein shall mean SmartPros Ltd., a Delaware corporation, its subsidiaries and its predecessors.

## PART I

### Item 1. Description of Business

#### Overview

In June 2014 we announced that we would be performing an in-depth review of our operational activities, in what we described as "Back to Basics". Our aim is to make certain our business activities leverage our three core competencies, without pursuing projects or initiatives where our development costs and risks are high, and our gross profit margins are low. As a result, we have reduced or eliminated some business activities that were not contributing to profitable growth, and we have refocused our resources on those opportunities with high potential for ongoing profitable growth. This may result in a decline in our revenues in the short-term, but should also improve our operating profits and margins.

Our first core competency is the creation and producing of continuing professional education content. SmartPros continues to be a leading content producer of training for professionals. Much of our content assists our customers to maintain their professional licenses in many different fields. We deliver training solutions for accountants, attorneys, securities/financial services professionals, engineers, and many other professionals. Our content is available in text and video-based formats, deliverable through various mediums as well as through live education and webinars, and can be customized to meet the specialized needs of our clients.

Our second core competency is our technology platform that delivers our content and supports associated administration. As technology has rapidly advanced, we have invested approximately \$4 million to develop our Learning Management System (LMS) known as eCampus as well as our Audit Management System (AMS) and other related products in order to keep up and stay ahead of the competition. With these robust technology platforms we are able to interface with most modern devices including smartphones and tablets. Our continuous investment in our state of the art proprietary platform has resulted in the creation of a unique delivery system that is at the heart of almost everything we do. We not only have a continuously refreshed library of content but we also have a continuously evolving platform to deliver that content, administer credits, and track training efforts in a secure and user friendly LMS.

Our third core competency is our ability to adapt our total solution to the specific needs of our clients, at a time when so many vendors require clients to adapt to their solutions. By taking the time to thoroughly understand our clients' needs we have the ability to adapt how we apply our content, platform, and services to address those needs. We continue to grow closer to our strategic clients, and become their strategic training partner and "go-to" resource, to provide as much support as they need to achieve their specific objectives. Because of SmartPros' diversity of strengths in instructional design, curriculum development, subject matter expertise, producing virtual live training or sophisticated e-learning, accreditation administration, customer service, meeting planning and other support services required to accelerate achievement of their objective, we can deliver unique total solutions that provide tremendous value in how they match our client's specific needs.

Great content, robust state of the art technology to facilitate and manage training efforts, and support services to help our clients achieve their training needs - those three core competencies define our present business and shape our immediate future. Together those three core competencies represent our competitive advantage, enabling us to deliver training solutions and related services that meet the varying needs of our clients.

We provide learning and educational solutions in content areas that target specific markets, including accounting/finance, legal, engineering, securities, and insurance — all of which have licensing and mandatory continuing education (CE) requirements. We also provide education in banking, finance, taxation, information technology, health and safety, human resources and compliance for the general corporate market. Our courses are available in text and video-interactive formats, live education and webinars. We can also design, produce and deliver customized programs and technology as well as offer a full range of customer service, course hosting, accreditation

tracking and administration, and e-marketing opportunities to our clients. Our customers include professional service firms and companies of all sizes that purchase our courses or other services for use by their employees; individuals who purchase our courses, programs or subscriptions on a retail basis; state CPA societies, and numerous professional organizations and their respective members. Our e-marketing and e-commerce divisions sell ads on our Websites, develop customized newsletters and targeted marketing programs and provide technical services that enables our clients to offer accredited programs to their clients.

Our learning solutions for professionals are designed to meet the initial and/or the ongoing licensing and continuing professional education requirements imposed by governmental agencies and professional standards organizations.

Most of the courses in our accounting/finance library are designed to meet the standards and adhere to the requirements of all state boards of accountancy and those of various professional and certifying organizations. These courses are also available to provide educational support for beginning to intermediate-level professionals who are not subject to regulatory requirements for CE, allowing clients to deploy our libraries to address learning needs for their entire organization.

Most of our engineering courses have been approved for continuing professional development credit offerings by one or more organizations, including the American Society of Civil Engineers (ASCE), the National Society of Professional Engineers (NSPE) and the American Council of Engineering Companies (ACEC). In addition, we offer courses that help candidates prepare for licensing exams in various engineering disciplines.

Our financial services library consists of courses designed to meet the continuing education requirements for bankers and financial services professionals, including insurance agents and licensed security industry professionals. CE requirements for licensed insurance agents are very complex, vary from state to state, and are usually set through legislative action carrying the force of law. Our financial services library includes courses that meet insurance CE requirements for every insurance regulatory authority in all fifty states and the District of Columbia.

All or a portion of our continuing legal education (CLE) library is accredited in twenty-two states and the United Kingdom. Unlike the accounting and engineering professions where a national organization oversees the approval process for continuing education courses, in the legal profession each state's bar, judiciary or other organization controls the approval process. Our legal library also includes human resources courses that are not eligible for CLE credits.

In the general corporate market, our educational solutions are designed to meet specific technical and career development skills. Our corporate compliance programs are designed to align corporate behavior with applicable laws and regulations and generally accepted codes of conduct. We also provide educational solutions for human resources, health and safety, sales and other personnel as well as product training for end users.

While our products are available in multiple media formats and online, each discipline is not available in every format. A majority of our products are delivered over the Internet as we believe that is the fastest growing delivery channel. For those clients that prefer a more in-depth learning experience, we offer live seminars directed to accountants, legal and financial services professionals delivered through a number of different channels, including public seminars and customized in-house programs. We also deliver some of our content through webinars. Our video and online solutions are flexible and easy to use and are an alternative to the traditional classroom setting. These various delivery streams are designed to attract all of the potential audiences in each discipline that we serve. In addition, we offer clients a robust, comprehensive learning management system (LMS) known as the SmartPros' eCampus (eCampus). eCampus houses all of our content and will eventually replace our other LMS, the Professional Educational Center (PEC), which is still being used by some of our clients. Once the PEC is phased out entirely, all of our customers will reside on a single platform. eCampus provides clients and their employees a platform to fulfill their continuing education requirements online and to track their usage and performance.

#### Corporate History

We were organized in April 1981 under the laws of Delaware as Center for Video Education, Inc. In 1998 we changed our name to Creative Visual Enterprises, Ltd. In January 2000 we changed our name to KeepSmart.com, Inc., and in June 2001 we changed our name to SmartPros Ltd.

#### Industry Background

The Association for Talent Development (ATD), formally known as the American Society for Training and Development (ASTD), in its 2014 State of the Industry report, estimates that companies on average spent \$1,208 per employee on training and development. This is a one percent increase over the prior year. In addition, the number of learning hours used per employee increased to 31.5 hours from 30.3 hours in the prior year. As such, U. S. organizations spent over \$165 billion on employee learning and development in 2013.

Professional and corporate education historically was dominated by traditional classroom instruction. However, advances in communications technology have changed the manner in which corporate training and education is developed, delivered and tracked. Further, competition demands that today's 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 professional and corporate educational solutions available in time flexible and cost-effective formats.



#### Accounting and Finance

The accounting and finance market includes: certified public accountants, certified management accountants, certified internal auditors and corporate accounting, finance and management professionals, most of whom have mandatory continuing education requirements.

The National Association of the State Boards of Accountancy (NASBA) in their 2014 annual report states that there are more than 750,000 licensed Certified Public Accountants. A substantial number of these professionals require continuing professional education (CPE) credit to maintain their license to provide professional services and hundreds of thousands of other financial management professionals require CPE credit to keep their certifications up to date and in good standing. In conjunction with the NASBA statistics, The American Institute of Certified Public Accountants (AICPA) states in its 2014 annual report that it has more than 400,000 members, with membership increasing 13% over the past decade and 25% since 1994. Approximately 45 percent of their membership serve in public accounting positions, with the balance in corporate, education, government and other sectors. Beyond the audience of professionals meeting mandated CPE requirements, the Bureau of Labor Statistics as of May 2013 estimates over 2.1 million accounting and finance professionals are employed in the United States.

To maintain their licenses, accounting professionals must satisfy the CPE 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 (other than Wisconsin) and the District of Columbia and the U.S. Territories (other than the Virgin Islands) generally requires an average of 40 hours of CPE credit annually to maintain an accounting license. In 40 states, the District of Columbia and Puerto Rico, courses offered by the National Registry of CPE Sponsors, a registry of sponsors approved by the NASBA, automatically qualify for CPE credit. We are an approved NASBA sponsor.

#### Engineering

According to the Bureau of Labor Statistics, as of May 2013 there were 1.5 million engineers in the United States and over 600,000 construction managers. In addition, there are over 475,000 engineering technicians who may also 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 (FE Exam), is given twice each year, in April and October. According to the National Council of Examiners for Engineering and Surveying (NCEES), in 2013 approximately 52,000 engineers sat for the FE Exam. The FE Exam has a typical 67% pass rate. In addition, engineers who pass the FE 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 Civil exam (PE Civil Exam) is the highest-level exam for civil engineers. 25,000 candidates sat for the PE Civil Exam in 2013 which also given twice a year, in April and October. The PE Civil Exam has a typical 64% pass rate.

Many states also require licensed professional engineers to complete a minimum number of professional development hours to maintain their professional licenses. Unlike the accounting and finance market, where there is a reasonable amount of uniformity, in the engineering field 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.

In addition, our engineering division offers a catalog containing over 160 health and safety courses designed to help companies and their employees meet their workplace regulatory compliance requirements under governmental regulations such as The Occupational Safety and Health Act (OSHA), workers compensation insurance, hazardous material handling and other rules. Most of these courses qualify for professional development credit for continuing education. We have recently introduced a Construction Project Management course.

#### Legal

In all, the Bureau of labor Statistics as of May 2013 estimates that there are over one million legal industry professionals in the United States. Forty-five states require some form of CLE with requirements ranging between 10 hours per year to 45 hours every two or three years. All courses have to be approved by the respective bar association, judiciary or other organizations in each state. In the legal profession, each state, rather than a national organization, exercises control over the requirements and content approval of continuing legal education courses. This makes the approval process more difficult. We have also added to our catalog a series of courses relating to human resources and

compliance issues.

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### Financial Services

Financial services firms, such as banks, brokerage houses and insurance companies, have either employees, contractors or agents other than accountants and lawyers, who hold various licenses granted by the federal and/or state governments or administrative agencies that require continuing education. The companies themselves are also typically required to provide training or various regulatory, product, process or market related topics to ensure that their staff or representatives properly process financial transactions or communicate financial information or advice. We have also developing software for financial services firms to assist in their compliance requirements.

### Information Technology

To the best of our knowledge there are no governmental continuing education requirements applicable to IT personnel. However, given the pace and frequency with which existing technologies evolve and new technologies are developed, continuing education is imperative for information technology professionals.

### Our Business

Since becoming a public company in 2004, our business has expanded significantly, primarily through acquisitions. Today, we serve five professional markets (accounting/finance, engineering, financial services, legal and information technology) and provide educational content, technology and support services to a wide range of clients in various industries.

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 and cost-effective manner;

businesses to provide their employees and managers with educational programs addressing the needs of their respective industries, corporate governance, ethics and compliance issues; and

- professionals and businesses to have the technology to track and monitor their and their employees' compliance with continuing education requirements and to provide credits for their qualifying internal training and to assess the effectiveness of their educational programs.

We also serve those who want to be suppliers of accredited training content, so they can offer our professional education and technology to supplement their sales and marketing efforts. To address these needs, as of year-end 2014, we have approximately 2,800 hours of programs currently available in one or more formats including print, videotape, CD-ROM, DVD or online and can accommodate either group or self study. As we are always seeking to keep our various libraries current, we periodically remove and add programs. These programs consist of the following:

- 1,200 hours in accounting/finance;
- 600 hours in engineering;
- 600 hours in banking, securities and financial services;
- 100 hours in legal education;
- 100 hours in information technology; and
- 200 hours in health, safety, human resources and compliance.

These figures do not take into account custom-designed courses or live programs. Our Loscalzo subsidiary (Loscalzo) and our Executive Enterprise Institute division (EEI) provide live educational programs for accounting and financial professionals as well as attorneys, and our Financial Campus (FC) division can also produce customized live educational programs for financial services firms. Both Loscalzo and EEI's live courses are designed for either public audiences or in-house programs. We can also provide accreditation administration in conjunction with either these customized courses or our clients' internal programs.

We are now able to provide our clients that have employees with various educational needs with our multiple libraries delivered through one platform, since all our libraries are supported by our LMS which provides a better learning solution for them. For example, many of our information technology titles are particularly relevant to our financial library audience helping those professionals engaged in audit oversight of their corporate IT departments.

The vast majority of courses in our accounting and finance professional libraries are designed to meet the standards and requirements of all state boards of accountancy and those of the 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

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Texas. NASBA recently raised their requirements for all self-study providers. We have successfully transitioned to their new "QAS Self-Study" designation. As a result, our designated programs qualify for CPE credit in all 50 states and the District of Columbia for certified public accountants, certified management accountants, certified internal auditors and certified financial managers.

Our engineering products include courses designed to help prepare engineers for the FE Exam, the basic entry-level licensing exam, and the subsequent professional engineering licensing exam (PE Civil Exam). We offer courses for PE Exam candidates in mechanical, electrical power, civil, environmental and chemical engineering. Our courses are designed to meet the ongoing professional development requirements mandated by various states. We often jointly develop with or license these programs from an independent third party. Our engineering courses are available online, as well as in print for the PE and FE Exams. We also produce courses for project management, review courses for the "Certified in Production and Inventory Management" certificate. We also offer online courses in human resources, health and safety and provide courses from our SmartPros Advantage (SPA) library, such as "Accounting for Non-Accountants."

Our SmartPros Legal and Ethics Ltd. subsidiary (SLE) provides learning solutions to the legal and corporate compliance market through its Cognistar division. Cognistar products include accredited CLE programs and customized corporate educational programs. These include self-paced courses in a content-rich, engaging environment. Taking full advantage of the Internet, these solutions are provided at significantly lower cost than other continuing education experiences. They also market a series of courses designed for human resource professionals. SmartIT, our information technology training division's library known as WatchIT, includes more than 100 courses providing relevant briefings to executives, technologists and consultants with up-to-date information in the ever-changing technology landscape.

Our Financial Services division offers over 300 course titles covering the insurance, banking and securities industries. These courses can be delivered online, in a multimedia Web-based format or through live programs. Many of these courses have been approved for credit by different organizations for continuing education in their respective fields. We have also developed technology that can be used by any entity that performs audits of its branch offices. Our Audit Management System (AMS) is currently being used in the financial services industry but can be modified to meet the needs of clients in any industry.

#### Strategic Partners

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

Financial Executives International (FEI) and Institute of Management Accountants (IMA). FEI and IMA both market our Financial Management Network (FMN). We are responsible for producing the product with FEI and IMA, assisting in topic selection and with providing speakers. We also are primarily responsible for selling the product. We also sell our SPA line of products through FEI and IMA. EEI also offers live programs to FEI members.

Institute of Internal Auditors. IIA offers the online version of FMN and SPA to its members through a co-branded LMS.

State Societies of Certified Public Accountants. A number of state societies offer our products through their own co-branded LMS.

Our engineering products are co-marketed with several professional organizations, such as the American Society of Civil Engineers (ASCE) and our legal products are now hosted and marketed by a national legal research firm.

#### Our Strategy

Our objective is to remain a leading provider of professional and corporate educational solutions in the United States. To achieve this goal, we are pursuing the following strategies:

Expand library of content. We believe that our future success depends, in part, on our ability to develop and acquire new and fresh content. The new content could either expand or supplement our existing libraries or could constitute a new library for one or more additional vertical markets. Toward this end, we continuously develop new courses and programs for our accounting, engineering, legal, information technology, financial services and general corporate libraries.

Develop new products and applications. We continue to develop new products that leverage our existing content, technology and support services as well as entirely new content. Examples of new product development and new product lines

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include our AMS, our accreditation software, our SmartPros eLP, and our CourseBuilder 2.0, all of which are discussed elsewhere in this Item 1. We are continuously updating and adding courses to our various libraries to keep them current and seeking new marketing partners. With the launch of eCampus, we are able to promote and access all of our online content and educational solutions through one seamless, user-friendly portal. In early 2014, we introduced applications that run on iPads and other mobile devices, enabling the content in our libraries to viewed on these devices.

Reliance on our core competencies. In June 2014, we announced our "Back to Basics" plan, that entails closing, selling or reducing certain verticals of our business, reducing staffing in certain areas and overhead related to development. This will allow us to concentrate on those products that generate the greatest rate of return. In addition, we have hired a lead generation firm, increased our sales force and are focusing on products and services that leverage existing assets and capabilities that have a high rate of return, such as the sale of our subscription based products, licensing of our software products and CPE and CLE administration services. In conjunction with this strategy we sold substantially all of the operating and other assets of our Skye Multimedia Ltd. (Skye) subsidiary and terminated our ethics training division of SLE.

Make strategic acquisitions. We believed that the most efficient way for us to expand our libraries, increase our share of the markets we currently serve and penetrate new markets is through strategic acquisitions. Since our initial public offering in October 2004, we have consummated eleven acquisitions ranging in size from \$24,000 to approximately \$4.4 million. Although, recently we have not been able to make substantial acquisitions, we are always studying potential acquisitions that meet our criteria.

Keep pace with technology. We believe that our ability to deliver our products in multiple formats is critical to our continued success. The broad acceptance of sophisticated mobile devices, tablets and other technology as a content delivery tool will continue, making it an increasingly important medium for distributing our products. At the same time, we recognize that new technologies may emerge that will complement our model for flexible delivery of content. In 2014, we completed our software products after having spent approximately \$500,000 in 2014 and a total of approximately \$4 million for the development of new technology.

Expand existing alliances and enter into new strategic alliances. We believe that alliances with professional organizations and associations and commercial content providers are important to our growth and competitive position in the industry. We plan to try to broaden these existing relationships and seek new ones.

#### Our Products and Services

The following are our products and services:

##### Accounting and Finance

Our accounting and finance libraries, exclusive of Loscalzo and EEI (as described below), contain over 1,200 credit hours of content. Except for SPA (discussed below), which is only available online, our other accounting and finance programs are available either in DVD format or online. In addition, we can also deliver instruction through live or recorded webinars. The individual online course format is for self-study only and is available as text only, text with audio, or in a multimedia format that includes text, audio and streaming video. All video courses come with a DVD and an instructor guide of the program and are used primarily for group study. All online courses include downloadable text materials, easy-to-follow course outlines, interactive quizzes and the ability to track credits and print completion certificates. The online self-study programs qualify for continuing professional education credits. The number of credits available from each program depends on its length, as 50 minutes of self-study is equal to one CPE credit. Our clients can purchase either a single program or a subscription to a series of programs. Prices depend on the length of the subscription (one, two or three years), the number of users and the number of libraries covered.

Loscalzo. Loscalzo offers seminar programs covering a variety of accounting, auditing and assurance topics (including those that meet both the 24 hour and 80 hour Yellow Book requirement for governmental audits), employee benefit plans, governmental auditing, not-for-profit auditing, risk assessment auditing, fraud, professional ethics and staff training. These courses are offered to various state CPA societies, accounting and professional services firms, association of accounting firms and corporations. We also conduct our own seminars in two states and have the ability to deliver instruction through live webinars or recorded Webcasts. Loscalzo also offers "This Week in Accounting" (TWIA). TWIA is a series of one hour weekly webinars covering current topics applicable to accounting and tax professionals. Each of these webinars generally qualifies for one hour of CPE credit.

Executive Enterprise Institute (EEI). EEI offers live seminars for both the corporate and public accountant marketplace. Some of the courses qualify for CLE credit as well. These seminars are usually one to three day events held in various locations throughout the United States and include topics such as taxation as well as accounting standards and Securities and Exchange Commission updates. EEI also offers customized in-house programs to meet its client's specific needs

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that can be delivered either live or over the Internet. EEI also offers support services for clients who are interested in either internal training or for marketing purposes to their clients or potential clients. These services include agenda development, subject matter expert recruitment as well as event planning services and CPE administration.

SmartPros Advantage (SPA). SPA is a skills-based learning library containing over 300 text and/or video courses that vary in length from one to eight credit hours. We produce these programs in our own production facility using either our own employees or independent authors to write and/or teach the course. Non-employees are either paid a fee for their services or are paid a royalty based on course usage. This library is marketed primarily to corporate accounting and finance professionals and public accountants. The courses are offered either individually or on a subscription basis.

Financial Management Network (FMN). FMN is a library of programs dealing with current, relevant topics. We create four new courses a month for a total of 48 new segments a year. We also maintain an online archive containing the most recent 72 programs. The segments are written and produced by our staff and generally involve an interview with an independent industry professional. The material is presented in a question and answer format. These programs are marketed primarily to corporate accounting and finance professionals. FMN courses are offered either in video-based format or online.

CPA Report (CPAR). CPAR is a library of programs covering topics in public accounting and is distributed primarily to accountants in public practice. Each month (except March) we add four new courses from among the following topical areas: individual tax, business tax, estate and financial planning, specialized tax topics, auditing and accounting and financial reporting. We also offer an online archive containing the most recent 44 programs. CPAR is offered either in a video-based format or online.

CPAR Government and Not-for-Profit. This product is a library of programs designed specifically for accounting professionals employed by federal, state and local governmental agencies or not-for-profit organizations. Each quarter we distribute four new programs: two for government accountants and two for not-for-profit accountants. We also publish an online archive containing 16 of the most recent programs. The CPAR Government and Not-for-Profit programs are offered in either a video-based format or online.

Custom Products. In addition to the subscription-based libraries above, we also produce customized programs for our clients. In some cases, the client will author the content and retain us to videotape the program and convert it into a digital format that can be distributed via the Internet or internally through a corporate intranet. In other cases, we will write and produce the entire program for the client. We then deliver this custom content either through our proprietary LMS, the client's own LMS, or through live educational programs. These customized products can be designed to qualify for CPE credit. We can also do CPE administration for courses or programs produced by our clients.

#### Engineering

Our engineering library includes the following:

FE Exam Review. This is a preparatory course for the basic entry-level licensing exam that all engineers are required to take. It is a Flash-based, interactive review course that is being marketed directly and through professional associations to engineers and to engineering firms for their internal skill-building and competency testing programs. It is only available online. We also private label the course so our strategic partners can market it to their members. The self-study version of this course also provides for instructor mentoring.

PE Civil Exam Review. Our interactive PE Civil Exam review course for civil engineers was developed jointly with the ASCE and the Boston Society of Civil Engineers and is designed to prepare engineers for their professional licensing exam. The PE Civil Exam review course, with over 50 hours of material, is an interactive multimedia tool that simulates the actual professional engineering exam using demonstration problems comparable to the problems found on the actual exam. The course includes seven complete, self-contained course modules that cover the following subjects: geotechnical, structural, transportation, water resources, environmental, and construction. In addition, there are two bonus sections — economics and surveying review — to help prepare for the exam.

We also offer a series of self-study PE Civil Exam preparation courses that cover the civil, mechanical, electrical and chemical disciplines. This coursework, which covers the same set of modules as our online version, is a paper-based, self-study format that provides for instructor mentoring via e-mail, telephone or submission of mini-exams for grading. The environmental and mechanical course work is available on CD-ROM.

Online Professional Development Hours. We have a library, consisting of 250 hours, of engineering and management courses that qualify for professional development hours. For example, in the civil technical area we have over 50 hours of course material on various topics relating to technical practice. Over half of the content in this library was developed with the ASCE.

Project Management for Engineers. This course was developed by, and is designed specifically for, engineers. It was one of the first completely interactive online project management courses. The online format is enriched with audio and interactive graphics and allows the user to determine the pace of study. The program is divided into 11 critical sections with over 60 individual learning modules. It provides over 35 hours of continuing professional development credit.

Construction Project Management. This is a new course consisting of an online, seven part video based education series designed to provide both new and experienced construction project managers with approaches to improve their project planning and tracking, and techniques for creating and updating effective schedules in Microsoft Project and other project management software packages as well. The Construction Project Management course offers 8 hours of continuing professional development credit.

Supply Chain and CPIM Certification. We provide to members of American Production and Inventory Control Society (APICS) a series of five courses that can be taken as either stand-alone coursework or together to become certified in Production and Inventory Management (CPIM). The courses are designed to help the user develop knowledge and skills in the essential areas of materials management and integrated resource management. Each APICS self-study course requires approximately 25 to 30 hours to complete.

Health and Safety. We have a library of online courses containing over 160 hours of educational courses covering a broad range of topics including OSHA regulatory compliance, hazardous material handling and environmental and safety topics.

#### Legal

Cognistar offers approximately 100 online CLE courses. These courses are accredited for over 100 hours of CLE credit in approximately 22 states. Not every course is approved in each state. In addition, Cognistar develops customized courses for its clients on a consulting basis.

#### Financial Services

Our financial services division primarily consists of our FC libraries. FC sells online courses for the banking, insurance and securities industries. We also have the ability to provide live courses to those industries. In addition, FC has developed software that enables companies in the financial services industry to track their employees compliance with various governmental regulations regarding continuing education.

This division has over 300 courses totaling over 600 hours in the banking, securities and insurance areas. Course offerings include: banking compliance, general banking, general bank management, insurance, lending, retirement and estate planning, securities, ethics, anti-money laundering, financial planning and industry-related sales and service. Approximately 150 of these courses have been accredited by various state departments of insurance for continuing education credit. Many other courses have been approved by the American College for PACE credit and the Certified Financial Planners Board of Standards for CFP credit. These courses are offered in a number of different mediums including web-based, video, multimedia and workshop format.

In addition, we recently introduced our new Audit Management System (AMS) software, that can be used by any broker-dealer required to audit its branch offices pursuant to various regulations of the Securities and Exchange Commission (SEC) and/or the Financial Industry Regulatory Authority (FINRA). The AMS is designed to manage everything from identifying those branches with upcoming branch audit due dates either in a list or across a map interface, to scheduling them, notifying branch staff of upcoming audits, facilitating the auditor's successful completion of the on-site audit, documenting findings of the audit, tracking remediation issues through to their closure, providing a complete archive of all audit related activity and associated documentation, and starting the process over.

#### Information Technology

Our SmartIT division includes more than 100 courses from our WatchIT catalog. These courses are designed to update and inform technology professionals about the latest initiatives in their field.

#### Technology

Our technology department is principally a service department and has two primary functions. One is to convert our courses to digital format that are then delivered through various mediums. The other primary function is to maintain our various Websites, our two LMS platforms (i.e., PEC and eCampus), for subscribers to our accounting/finance, legal and engineering products as well as maintaining our other technology products. It also develops new products

that can be used either internally or is available for sale or license to our clients. For example, SmartPros' AMS, previously described was

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developed internally and is currently available to the securities industries, but can be modified for any organization that performs an internal audit function.

Our new LMS, eCampus, combines all our properties on a single platform and fosters better communication tools with enhanced cross-selling potential. We have begun work on a new HTML5 version of our eLP content player for use with Apple iPad and iPhone. eCampus is a turnkey system designed to manage the educational subscriptions, student accounts, e-commerce and reporting needs of our clients. Using eCampus, our clients can review and assess usage of our programs by their employees and their employees' performance and the effectiveness of these programs. eCampus is co-branded with the client's logo and delivered using an application service provider hosted infrastructure model that requires no client technology resources. For those clients who have their own LMS, we develop an interface that allows them to access our system through their technology.

In March 2014, we introduced our new eLP-Mobile Compatible Player, enabling our clients to experience the same high-quality and ease of use as found using our desktop browser based player on their iPads, tablets and smartphones. This adaptive Wi-Fi and cellular ready player uses cutting edge technology to effectively provide a superior learning experience.

The technology department also generates fees through Website development and hosting, and consulting arrangements. For example, companies that have internal education programs have engaged us to convert those programs from workbook, instructor-led or videotaped-based courses to an e-learning format. We also offer our customers a broad range of support services, including technical support for our LMS. We believe that providing a high level of customer service and technical support is necessary to achieve a high level of customer satisfaction and sustained revenue growth.

#### Other

Most of our programs are produced in our in-house studio and production facility where we have CD-ROM and DVD duplication equipment. In addition, the video production department generates its own revenue by leasing the facility to third parties and by producing third-party programs.

#### Product Development

Our product development team includes Jack Fingerhut, John Fleming, Stacey Painter and Glenn Shapiro in the accounting/finance area; Michael Fowler in financial services; James Fallon in information technology and engineering; and Glenn Shapiro in the legal area.

Mr. Fingerhut, one of our co-founders and our president, oversees the development of our accounting programs and new product development. Mr. Fleming is a certified public accountant and was the former president of Loscalzo. He is responsible for instructing, writing and editing Loscalzo courses and has assumed the responsibility of maintaining and updating our SPA course catalog. Ms. Painter is a certified public accountant and was appointed the President of Loscalzo as of January 1, 2014. She is responsible for client development, instructing various Loscalzo courses and in conjunction with Mr. Fleming updating existing courses. Mr. Shapiro is the president of EEI, an attorney and has over 25 years experience in the professional education industry. He is currently responsible for the development of new courses and marketing of EEI and has assumed the presidency of SLE. He is also responsible for developing course content and customization in the legal area. Mr. Fowler joined us when we acquired FC. Mr. Fowler was formerly the senior director of business development at Thomson NETg. Mr. Fowler heads our Financial Services division and is executive vice president of business development. Mr. Fallon is the producer of our WatchIT product and has been developing programs for information technology professionals for over 20 years and is now responsible for our engineering products as well.

We recognize the need to continuously add new content as well as update our existing content. This requires us to devote substantial resources to achieve this goal. We utilize our internal resources that are supplemented by hiring independent contractors to update, develop or assist in developing programs for us. In those instances where we are relying on outside sources for content or where we purchase existing content, our design and development team will develop or oversee the development of an effective format that focuses on performance objectives, instructional anti-practice strategies, interactivity and assessments. This process includes creating and designing study guides and course material, scripts and, in some cases, visual aids. Our product development process includes subject matter experts, instructional designers, technical writers and developers, graphic designers, content editors, and quality assurance reviewers. After final assembly and integration of all course components, we test to ensure all functional

capabilities work as designed and deliver the desired learning experience and result.

Sales and Marketing

Our sales and marketing strategy is designed to attract new customers and build brand awareness. We market our products through our alliances with professional organizations and associations, through our own inside telemarketing sales

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force, our outside sales force, direct marketing using brochures, email blasts and through our Websites. We believe that this strategy allows us to focus our resources on the largest sales opportunities while simultaneously leveraging our strategic relationships.

Our sales and marketing department includes our president, an executive vice president of sales, a vice president of marketing, and a sales staff of 10 people and 2 outsourced salespersons. In addition, we recently retained the services of a lead generation firm. The sales staff is divided between inside (telesales) and field sales. The field sales force focuses on larger accounts. In addition, our senior executives and the heads of various divisions dedicate varying portions of their time and efforts to sales and marketing activities. Our chief technology officer spends a portion of his time selling and marketing our technology services. The president of our EEI division also supports the marketing of strategic initiatives being introduced to our customers. We will adjust sales and support staff commensurate with increased demand for our products and services.

To market directly and to supplement the efforts of our sales staff, we use comprehensive, targeted marketing programs, including direct mail to our customers and to members of the professional organizations with which we partner; public relations activities; advertising on our Websites and the Websites of our strategic partners; participating in trade shows; and ongoing customer communication programs. We build brand awareness through our strategic relationships with the leading professional associations and organizations and the leading commercial content providers within the markets we serve. These strategic relationships include co-branding initiatives on new and existing products, joint advertising campaigns and e-commerce relationships.

#### Technology

eCampus employs a logical and physical architecture that facilitates rapid development, deployment and customization of Internet-based solutions for organizational e-learning. Our core systems use a series of scalable application web servers, XML and MS-SQL data sources, and utilize industry standard web browser and Internet technologies for content delivery to the users. To ensure limited downtime and product lines that are free of bandwidth limitations as they grow, our redundant server system is located at secure Verizon co-location data centers in Elmsford, New York and Englewood, Colorado. These co-locations grant us the freedom to completely control our server infrastructure while providing us with 24/7 monitoring, support, redundant Internet connectivity and full generator power backup.

eCampus includes a scalable suite of applications and features that can be streamed via the Internet or a corporate intranet. The basic features of the system allow asynchronous streaming of video and audio courses combined with media-timed synchronization of supplemental material, online quizzes and final exams. Student interaction is enhanced through the use of real-time questions to content experts with quick response. This full-service solution includes a complementary array of communication tools such as email, chat, message boards and student tracking. The tracking of educational needs both internal to the system and external education opportunities, such as stand-up and leader-led programs, are maintained using a student-managed course tracking feature called "My Courses" some key features of eCampus include:

**Scalability.** Scalability is accomplished using a combination of load-balancing hardware and software. Multiple, redundant servers are deployed to handle peak periods when the largest numbers of concurrent users are expected on the system.

- **SCORM/AICC Connectivity Layer.** Where required, we use both Shareable Content Object Reference Model (SCORM) and Aviation Industry CBT Committee (AICC) Connectivity layers to ensure our content is deliverable through a variety of enterprise e-learning systems other than eCampus. Additionally, the core foundation is capable of exchanging data with third-party legacy systems with minimal effort.

**Standard Relational Database Server.** To enhance performance and ensure that users are served efficiently, the core foundation executes database-stored procedures to optimize intense database processing. The core foundation currently supports Microsoft SQL Server databases.

**ASP.NET-based Application Server.** The business and application logic resides on an ASP.NET-based application server. This architecture allows us to deploy a site across multiple servers using Microsoft Windows 2003 and 2008 servers.

**Electronic Commerce Enabled.** The core foundation includes interfaces to external electronic payment services, enabling real-time electronic commerce. This allows the instant purchase of both one-off and subscription-based

e-learning courseware.

Internet Multimedia Content Delivery. We deliver high quality, low bandwidth video and audio via the Internet, intranets and extranets. This multimedia content enhances and personalizes the learning experience. We use Flash Media, HTML 5 and other technologies as the delivery mechanism for this content.

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Low Bandwidth/High Impact Animations. Using Macromedia's Flash technology, we deliver both animated and spoken educational material with minimal load on corporate networks.

#### Competition

The market for continuing professional education and corporate learning solutions is large, fragmented and highly competitive. We expect these characteristics to persist for the foreseeable future based on the following factors:

- the expected growth of this market, as demand for highly skilled professionals increases;
- the increased use of continuing education as a marketing tool; and
- relatively low barriers to entry.

Of the markets we currently serve, we believe that all of our professional education markets have some barrier to entry plus a multitude of regulatory compliance requirements. It would be extremely difficult to compete in the accounting education market without NASBA sponsor designation. Obtaining this designation requires an investment of time and a modest amount of capital. Nevertheless, for companies with even modest resources in terms of talent and capital, these barriers may not be significant. In the legal profession, the approval process for continuing education courses varies by state, unlike accounting. In the engineering market, each state sets its own standards, as does each engineering specialty. In the corporate education market, the barriers to entry are virtually non-existent. The financial services industry has various barriers to entry as employees requiring continuing education are subject to federal and/or state regulations. In addition, customers expect courses covering a broad range of topics related to regulatory concerns. The course library and its delivery platform must meet very rigid controls in order to be pre-approved. Information technology education has limited barriers to entry as there are no regulatory requirements.

We believe that the principal competitive factors in our industry are:

- Breadth, depth and relevancy of the course content;
- Performance support and other features of the educational solution;
- Reputation of presenter;
- Adaptability, flexibility and scalability of the products offered;
- Ability to adapt our offerings to changing technologies;
- Deployment options offered to customers;
- Customer service and support;
- Price;
- Industry and professional certifications;
- Brand identity; and
- Strategic relationships.

We believe that we compete favorably on these factors. While price is always a competitive factor, we do not believe that we should compete solely on that basis and, in fact, many of our competitors sell their products at lower price points than ours. Particularly in the accounting, legal, financial services and information technology markets, we believe that our reputation and the high quality of our offerings — as well as our other competitive advantages, including the breadth, depth and relevancy of our libraries, strategic relationships, our learning content management system, our customer service and support and the flexibility of our delivery options — allow us to price our products accordingly. In the engineering and general corporate markets where we have not established our reputation to the same extent, we have less flexibility when it comes to price. In the corporate compliance area we believe that what will ultimately differentiate us from our competitors will be our ability to create programs that are designed to meet the specific corporate cultures of our clients.

Our competitors, are both private and public companies and vary in size, scope and breadth of the products and services they offer. They include companies such as Saba Software, Inc., as an LMS provider; Thomson Reuters, Skillsoft, CPA2Biz, Inc., Center for Professional Education, Inc., Western Publishing, Inc., CPEOnline, Surgent McCoy, Corporate Executive Board, FurtheredEd (formerly known as LawLine) and Becker Professional Education in the accounting marketplace; RedVector.com, Inc., Professional Publications Inc. and various professional organizations in the engineering market; and LRN Corp., The Legal Knowledge Company, Integrity Interactive Corporation, SAI Global, Ltd. and Corpedia in the corporate compliance and ethics market. In the financial services market our competitors include Kaplan Financial, RegEd, WebCE, BVS, Sheshunoff, and various trade associations. In addition, we also compete with universities, professional and other not-for-profit organizations and associations,

some of whom are also our strategic partners and/or clients. Potential competitors include professional organizations such as the AICPA as well as each state's society of certified public accountants. Other competitors include large diversified publishing companies such as The Washington Post Company, Wolters Kluwer, Thomson Reuters and Pearson Education, other education companies (including traditional providers of in-classroom instruction and remote learning solutions such as DeVry University), and professional services companies, including accounting firms who are looking to

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promote their services using CPE. Competition may also come from technology and e-commerce solutions providers. Internet based learning solutions have become increasingly popular in recent years along with the increased demand for flexible, cost-effective alternatives.

Some of our existing and potential competitors have greater resources, financial capabilities, market penetration, and more extensive libraries providing potential to establish a stronger competitive position than us. For example, one of our competitors is CPA2Biz, an affiliate of the AICPA. Another competitor, Thomson recently acquired the CPE division of Bisk Education, Inc., and LearnLive, Inc. SkillSoft, a large multi-national corporation whose primary focus is e-learning content and software products for business and information technology professionals. Saba principally provides software solutions that are used to manage people in large organizations.

The largest solutions providers to the general corporate compliance educational market are SAI Global, Ltd. and LRN Corp. We rarely face either of these companies in the marketplace since they both focus principally on Fortune 100 companies and have extensive off-the-shelf libraries. Another competitor is Corpedia, a division of NYSE-Euronext which markets off-the-shelf and customized programs to mid-and large-cap public companies. Corpedia has the advantage of a vast library. We currently focus on developing customized programs for our clients.

Our principal competitors in continuing legal education are the Practising Law Institute, FurtheredEd, West LegalEdCenter, American Bar Association, CLEonline, and various state bar associations.

Our principal competitors in the area of financial services compliance education and continuing education for bankers include Bankers Edge, Bankers Academy (The Edcomm Group) and banking associations such as BAI, Bankers Training & Certification Center, and various banking trade organizations. Competition in the securities market includes RegEd and Kaplan Financial and in insurance market includes WebCE.

Our principal competitors in the area of engineering education are RedVector.com, Inc., university-based extension programs, individual trainers and professional organizations.

Our principal competitors in the area of information technology include SkillSoft and Global Knowledge.

**Our Competitive Advantages**

The following competitive advantages enables us to stand out, challenge and often succeed against our competitors and will allow us to achieve our goal of becoming a leading provider of learning solutions for the professional and business communities.

**History and reputation.** For more than 30 years we have been providing learning solutions for accounting and finance professionals. We believe that in the accounting/finance market we have the reputation of being a leading provider of high quality continuing professional education programs, as evidenced by our high renewal rate. We believe that our reputation in the accounting/finance market will assist us as we expand our presence in the engineering, legal, financial services, information technology, corporate ethics and governance, general corporate markets and also into new markets.

We have been providing learning solutions for engineering professionals since 1997. Our legal and financial services divisions have been in business for 15 and more than 30 years, respectively.

**Technology.** We believe that our continual investment in technology enables us to attract companies of all sizes as we are able to accommodate the requirements of large multi-national companies, as well as small professional firms. In addition, we are constantly upgrading our systems and offerings so that our products may be available on almost every type of device in use today. In addition, we have the ability to customize this technology or develop new technology to meet our client's needs.

**Professional designations and strategic alliances.** We believe that our relationships with some of the largest and most respected professional organizations and associations in the accounting and engineering professions give us instant credibility in the marketplace, provide us with a distribution channel for our products and are a source for programs and faculty.

**Extensive library.** Our content library consists of over 2,800 hours of proprietary education content including skills-based and update programs. We believe that our libraries are among the most extensive in the industry and help attract new subscribers. In the market for continuing legal education, we offer national courses; comparatively, those offered by the local bar associations usually deal with issues particular to that state. We also believe that our content and delivery technology is better than that of our competitors.

Discussion leaders with extensive experience in their practice areas. Loscalzo and EEI have over 30 years experience in live educational programs and have a large base of discussion leaders with extensive experience in their respective fields with

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deep industry knowledge. They also have highly qualified and experienced program developers with extensive knowledge of the various topics in their respective course catalogs.

**Experienced management.** Our management team is comprised of experienced and successful accounting and legal professionals and sales and marketing and administrative executives. This has enabled us to develop high quality programs, enter into strategic relationships with the major professional organizations in the markets we serve, attract well-known personalities around whom we develop new programs, cut costs and make strategic acquisitions.

**Value-added services.** In addition to our extensive library of courseware, we also offer our customers a proprietary learning content management system, an administrative tool that enables organizations to monitor the use and efficacy of our programs. We also have the ability to provide a blended educational solution that includes both live and online programs.

**Large and diversified customer base.** We have over 3,000 corporate customers. Our customers include Fortune 500 companies, professional firms, small- and medium-sized companies and individuals. In the aggregate, we estimate that our corporate clients employ tens of thousands of accounting and finance professionals, representing a substantial universe of potential users. In addition, our corporate customers are a diversified group in terms of the industries and markets in which they operate. For example, our customers are some of the leading businesses in the following industries: accounting, banking and finance, law, insurance, technology, telecommunications, retail, aerospace, natural resources, construction and chemicals.

**End-to-end service.** All of our accounting/finance, legal, information technology and corporate educational programs are produced, filmed, edited, duplicated and converted in-house. Our engineering and financial services programs are usually licensed from or developed in conjunction with an independent third party but are filmed, edited, duplicated and/or converted into digital format in-house. Finally, we have a fulfillment center from which we ship our course materials, DVDs and hard copies, to our customers. We believe our vertically integrated operation results in a more efficient production process and enhances the quality of our products.

**Online resource and content provider.** We own and operate multiple Websites, including primary domains and subdomains at: [www.smartpros.com](http://www.smartpros.com), <http://education.smartpros.com>, <http://accounting.smartpros.com>, <http://corporate.smartpros.com>, <http://ir.smartpros.com>, <http://engineering.smartpros.com>, <http://greenengineering.smartpros.com>, [www.engineering-ecampus.com](http://www.engineering-ecampus.com), [engineeringecampus.com](http://engineeringecampus.com), <http://marketing.smartpros.com>, [www.workingvalues.com](http://www.workingvalues.com), [www.cognistar.com](http://www.cognistar.com), [www.mgi.org](http://www.mgi.org), [www.pelicense.org](http://www.pelicense.org), [www.sageonlinelearning.com](http://www.sageonlinelearning.com), [www.financialcampus.com](http://www.financialcampus.com), [www.watchit.com](http://www.watchit.com), [www.financejobs.com](http://www.financejobs.com), [www.fmnonline.com](http://www.fmnonline.com), [www.ireflecttraining.com](http://www.ireflecttraining.com), [www.pro2net.com](http://www.pro2net.com), [www.accountingnet.com](http://www.accountingnet.com), [www.smartprosinteractive.com](http://www.smartprosinteractive.com), [www.loscalzo.com](http://www.loscalzo.com) and [www.eeiconferences.com](http://www.eeiconferences.com).

The SmartPros family of Websites has over 70,000 pages of proprietary content and links to professional organizations, associations and institutions, and is a marketing and distribution channel for our products. We believe that these Websites have become a destination for professionals based on the following data:

• As a result of maintaining the Websites, we have built a database with over 1.5 million profiled users.

• The Websites log over 1 million visits per month.

• The Websites deliver content to participants in over 120 countries.

• Through our Websites, we serve approximately one million ad banners and send over 200,000 opt-in emails per month.

#### Intellectual Property

We own a variety of intellectual property, including trademarks, trade names, copyrights, proprietary software, technical know-how and expertise, designs, process techniques and inventions. We believe that the trademarks and trade names we use to identify our products and services are material to our business. We own all of the following trademarks, trade names and/or service marks, which have either been federally registered or applications have been filed with the United States Patent and Trademark Office seeking federal registration: SMARTPROS, PRO2NET, LOSCALZO, KEEPSMART, WORKING VALUES, PROFESSIONAL EDUCATION CENTER (PEC), FINANCIAL MANAGEMENT NETWORK (FMN), CPA REPORT (CPAR), INTEGRITY TOOLKIT, INTEGRITY ALIGNMENT, COGNISTAR, SAGE, ACCOUNTINGNET, FINANCE JOBS, WATCHIT, SMARTIT, HAWTHORNE CENTER OF EXCELLENCE, FINANCIALCAMPUS, FINANCEJOBS, SMARTPROS ECAMPUS, SMARTPROS ELP and SMARTPROS ELPLIVE.

Despite our efforts to protect our proprietary rights, unauthorized persons may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. Policing unauthorized use of our products is extremely difficult and the means we use to protect our proprietary rights may be inadequate. We believe that, ultimately, our success depends to a greater extent on the innovative skills, know-how, technical competence and abilities of our personnel.

All of our internally developed content is protected by copyright. While this may offer some protection against unauthorized persons copying the material, it does not prevent anyone from independently developing material on the same topic or in the same format. Regarding content created, owned or licensed by third parties, we enter into license agreements that permit us to market, use and distribute that content. These licenses may be exclusive or non-exclusive. We usually obtain a representation from the licensor that he or she has the right to license the content to us, that the license granted to us does not violate the terms of any other license, that the license granted does not violate any applicable law, rule or regulation or the proprietary rights of any third party, including, without limitation, patents, copyrights, trade secrets, or any license or sublicense, covenant or contract with any third party and that there is currently no actual or threatened suit by any such third party based upon an alleged violation by such licensor of any such proprietary rights. However, we do not make any independent investigation to verify if these representations are accurate. If the representation is not true, we may be enjoined from using that content further and may also be liable for damages to the true owner of the content or the exclusive licensee.

In connection with eCampus, our license agreement restricts use of the system and prohibits users from copying or sharing the system without our express written consent. eCampus incorporates products and systems and technology that we license and purchase from third parties. We cannot assure that we will be able to continue to license or support this technology on terms that we consider reasonable, if at all. If these licenses or maintenance agreements expire and we cannot renew them, they are substantially modified or if they were terminated for any reason, we would have to purchase, license or internally develop comparable products and systems. Any one of these options may be expensive and/or time consuming, which could have a material adverse effect on our business and financial performance.

We cannot prevent third parties from independently developing similar or competing systems, software and content that do not infringe on our rights. In addition, we cannot prevent third parties from asserting infringement claims against us relating to these systems and software. These claims, even if they are frivolous, could be expensive to defend and could divert management's attention from our operations. If we are ultimately found to be liable to third parties for infringing on their proprietary rights, we may be required to pay damages, which may be significant, and to either pay royalties to the owner or develop non-infringing technology, the cost of which may be significant.

#### Government Regulation

Government regulation is important to our business. Every state sets its own continuing professional education requirements, in terms of the number of credits needed and the cycle in which those credits need to be earned, for its licensed professionals. In addition, specific content will only qualify for continuing professional education credit if it meets specific criteria, which varies from state to state. In the accounting/finance area, most states have adopted the NASBA standards to address the quality of course content. We are a certified NASBA sponsor, meaning that the courses we offer to the general public on a subscription basis qualify for continuing professional education credits in those states that have either adopted the NASBA standards or set their own standards similar to NASBA's, the District of Columbia and Puerto Rico. In the engineering area, there is less uniformity and each of our courses must be certified by the particular professional organization that oversees that particular specialty.

The market for CLE programs is regulated by state bar associations, state courts or other organizations in each state. The regulatory landscape is complex and varies from state to state.

The market for continuing education for the engineering professional is regulated by each state. The NCEES provides the guidelines and testing for engineers to obtain their professional licenses in all 50 states and various United States possessions.

In addition, various professionals and business entities in the insurance and security industries have federal and/or state licensing as well as continuing education requirements.

#### Employees

As of March 24, 2015, we had 57 employees of which 54 were full-time and three were part-time. We have 27 employees based in our executive offices in Hawthorne, New York. Loscalzo has nine employees in its Shrewsbury, New Jersey, office. In addition, we have 21 employees that work out of their homes in various states. We believe that our relationship with all of our employees is generally good.

CERTAIN RISK FACTORS THAT MAY AFFECT GROWTH AND PROFITABILITY

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The following factors may affect our growth and profitability and should be considered by any prospective purchaser of our securities:

Investing in our common stock has a high degree of risk. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained in this annual report, including our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition and results of operations. As a result, the trading price of our common stock could decline and you may lose all or part of your investment.

Our operating results may fluctuate significantly, limiting the ability to evaluate historical financial results and increasing the likelihood that our results will fall below investors' expectations, which could cause the price of our shares to drop.

In 2014 our net revenues and operating loss from continuing operations fluctuated quarterly, primarily due to decreased revenues from our accounting/finance division. Revenues were affected by a decrease in usage of certain courses in our library, as well as from our Loscalzo subsidiary and EEI division, both of which are in the live continuing education business. We anticipate lower revenues in future periods from live training, as EEI has reduced the number of course offerings, that are described more fully below. EEI's revenue is primarily recognized in the second and fourth quarters of the year and Loscalzo has virtually no revenue in the first quarter. In both cases we expense payroll and other costs as incurred regardless of when the revenue is recognized. As a result, our operating results were significantly better in the fourth quarter than each of the prior three quarters in 2014. These quarterly fluctuations can also cause our stock price to fluctuate or decline.

Our operations may be adversely impacted by general economic conditions and other factors.

Our customer base consists primarily of corporations, professionals and professional services firms and other businesses whose employees are required to take continuing education on a periodic basis as well as individual professionals. During economic downturns, some of our clients attempt to do without education and training as a cost-saving measure and others seek a less costly provider of the type of services we offer. They may also curtail the demand for customized products and the number of users may diminish as a result of reduced staff. In addition to budgetary constraints caused by economic conditions, attendance at live seminars can be affected by other factors such as weather or travel restrictions.

Our "Back to Basics" plan may not produce the results that we expect which could impair our results of operations. In June 2014, we commenced our "Back to Basics" plan that entailed reducing staffing in certain areas, closing, selling or reducing certain verticals of our business and re-purposing our resources to those areas of the business that provide the greatest return. In conjunction with this plan, in 2014 we sold substantially all of the assets of our Skye Multimedia Ltd. (Skye) subsidiary and discontinued our custom ethics business. Also, we plan on reducing the number of live events managed by EEI and have reduced overhead related to development. The discontinued operations of Skye are reflected separately in our operating results.

We do not expect to realize the full benefit of our "Back to Basics" plan until 2015. We anticipate that our annualized cost savings from net personnel reductions will be substantial and have a positive effect on our net income. We estimate that, exclusive of possible reductions in revenues and/or increases in related costs, our operating costs will be reduced by approximately \$750,000 per annum. We are hopeful that an increase in sales personnel and in marketing efforts from re-purposing our resources to those areas of the business that provide the greatest return will offset any declines in revenue and/or increases in related costs. We must caution that our operating results can be greatly affected by many factors as our "Back to Basics" plan is implemented. If our cost savings is not sufficient to offset the reductions in revenues and/or increases in related costs, our results of operations will be negatively impacted. Our subscription-based business depends on new business and customers renewals. Any decline in renewals or inability to obtain new subscriptions could affect future earnings.

A substantial portion of our net revenues is derived from subscriptions. Although, we have a high renewal rate, the loss of a substantial amount of renewals in any of our products, could have a material negative impact on our future results of operations. In addition, the inability to obtain new subscriptions or sell additional products to our existing customers could have a material negative impact on our business.

We may incur impairments to goodwill or long-lived assets.

We are required to test goodwill and our other intangible assets for impairment at least annually or if a triggering event occurs in accordance with the provisions of Topic ASC 350 Goodwill and Other Intangible Assets. Such impairment could be

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caused by any number of factors, including significant negative industry trends, reduced estimates of future cash flows, disruptions to our business or lack of growth in the areas covered by these intangibles could result in a charge to earnings for impairment of any of our intangible assets or goodwill. Any such charge could have a material impact on our earnings and our stock price. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely, heavily, on projections of future operating results, which may or may not be achieved.

Implementation or change in existing accounting regulations could have an impact on our operating results.

While we believe that we are in compliance with existing accounting standards and regulations, adoption of new accounting standards that may be promulgated in the future by the applicable rule making bodies could have a material negative impact on our future results of operations and earnings.

The industry in which we operate is highly competitive and has relatively low barriers to entry. Increased competition could result in margin erosion and loss of market share and brand recognition.

Our competitors include professional firms, public and privately held companies, universities (traditional and online), other live educational companies and professional and not-for-profit organizations and associations. 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, such as offering free CPE. If we fail to address competitive developments quickly and effectively, we will not be able to grow.

In addition, the consolidation or acquisition of our competitors could change the environment in which we operate as they may achieve greater market share, improved technology and greater resources.

Our current growth strategy assumes that we will not be able to make targeted strategic acquisitions.

A key feature of our prior growth strategy was to make strategic acquisitions. We recently have not been able to consummate additional strategic acquisitions in order to achieve our expected rate of growth. However, we will still pursue viable potential acquisitions that are presented to us. As part of our Back to Basics plan we are now concentrating on internal, organic growth.

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;
- competition from larger companies and venture capital and private equity firms for acquisition targets;
- 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. In addition, we may not achieve the benefits that we anticipated when we made these acquisitions, causing a negative impact on our results of operations.

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. We cannot assure 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 growth and competitiveness depends on our ability to adapt to new technologies and changes to existing technologies and new applications to meet market demand.

One of our principal competitive advantages is our ability to deliver content in multiple formats. For example, in addition to the traditional classroom setting, we offer a broad spectrum of internet based training solutions as our courses are available online and we can deliver webinars. This flexibility has enabled us to keep pace with changes in technology and has contributed to our growth. Keeping pace with technological developments can be difficult and expensive, adversely impacting our operating results. However, our continued growth depends on our ability to anticipate and adapt to our customers' needs and preferences. If we fail to do that, the potential adverse impact could be significant to our business, operating results and financial condition. We cannot assure that we will be able to keep pace and adapt to changes in technology or customer preferences.

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, our president, Jack Fingerhut and our chief technology officer and executive vice-president, Joseph Fish. Mr. Greene is an experienced senior corporate executive who has been instrumental in cutting costs, negotiating and consummating the acquisitions that have helped us focus on our core competencies while at the same time expand into new markets. Mr. Fingerhut is one of our founders and is actively involved in sales and marketing and identifying acquisition targets. Mr. Fingerhut also has overall responsibility for the accounting products. He has extensive contacts within — and knowledge of — the accounting profession. Mr. Fish has been instrumental in developing and introducing our new technology products such as our AMS and LMS. Although we have employment agreements with all 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 these individuals. It would be difficult for us to replace any one of these individuals should they resign or become incapacitated. 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. In addition, if any of our division heads were to leave, it could affect our revenues adversely.

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 depends on various factors including the type and size of the customer and the nature of the product being sold. Generally, sales to larger entities and sales of custom-designed products take longer to close. Most of our revenue is derived from corporate customers. Identifying the decision maker in these enterprises is often time consuming. Other variables in the purchasing process include 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 strategic relationships are usually, non-exclusive 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 and to sell our content. Our strategic partners may enter, and some have entered, into identical or similar relationships with our competitors, which could diminish the value of our products. Our relationships with our strategic partners are primarily covered by annual agreements that are subject to renewal. 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 relationships 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 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, 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.

Item 1B. Unresolved Staff Comments

We are a "smaller reporting company" as defined by Regulation S-K and, as such, we are not required to provide the information contained in this item.

Item 2. Description of Property

Our executive offices, production facility, technology center and fulfillment center are located on Route 9A in Hawthorne, New York, where we lease 17,850 square feet. The lease expires January 31, 2019. We also lease 2,700 square feet in Shrewsbury, New Jersey, for our Loscalzo subsidiary, which expires on December 31, 2016.

Item 3. Legal Proceedings

At the present time, we are not a party to any material legal proceedings other than in the ordinary course of business.

Item 4. Mine Safety Disclosure

Not applicable.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information

Our common stock is currently traded on the NASDAQ Capital Market under the symbol "SPRO." The following table sets forth, for the periods indicated, the high and low sales information for our Common Stock.

Price Range of Common Stock

	Sales Information	
	High	Low
2014		
First Quarter	\$2.72	\$2.00
Second Quarter	\$3.60	\$2.21
Third Quarter	\$2.31	\$1.78
Fourth Quarter	\$2.08	\$1.49
2013		
First Quarter	\$1.85	\$1.37
Second Quarter	\$1.75	\$1.43
Third Quarter	\$2.14	\$1.54
Fourth Quarter	\$2.67	\$1.97

At March 23, 2015, the closing sale price per share for our common stock, as reported on the NASDAQ Capital Market was \$1.57

(b) Holders

As of the close of business March 23, 2015, the number of record holders of our common stock was 85.

## (c) Dividends

The holders of our common stock are entitled to receive dividends as may be declared by the Board of Directors. During 2014, the Board of Directors approved four quarterly dividend payments of \$.015 per common share, for a total of \$.06 per common share. The 2014 dividends are non-taxable return of capital. Payment of future dividends are within the discretion of our Board of Directors and will depend on, among other factors, our retained earnings, capital requirements, acquisitions, operations and financial condition. On March 6, 2015, the Board of Directors approved a dividend payment of a \$.015 per common share payable on April 7, 2015, to shareholders of record on March 20, 2015.

## Company Purchases of its Equity Securities

On November 6, 2014, our Board of Directors approved a new stock buy-back program under which \$350,000 of company funds may be used to purchase shares of our common stock. As of March 23, 2015, we have purchased a total of 69,469 shares for an aggregate cost of \$120,293 under this program, inclusive of the shares shown in the table below.

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (October 1-31, 2014)	—	\$—	—	\$—
Month #2 (November 1-30, 2014)	5,763	\$ 1.23	5,763	\$342,884
Month #3 (December 1-31, 2014)	54,394	\$ 1.84	54,394	\$242,900
Total	60,157	\$ 1.78	60,157	\$242,900

## Item 6. Selected Financial Data

We are a “smaller reporting company” as defined by Regulation S-K and, as such, we are not required to provide the information contained in this item.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Form 10-K. Certain statements in this discussion and elsewhere in this report constitute forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. See “Forward-Looking Statements” following the Table of Contents of this 10-K. Because this discussion involves risk and uncertainties, our actual results may differ materially from those anticipated in these forward-looking statements.

## Overview

We measure our operations primarily using financial metrics. The financial metrics include revenues, gross margins, operating expenses and income from continuing operations. Other key metrics include (i) revenues by sales source, (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;
- continuing and expanding professional education requirements by regulatory agencies, including both federal and state governments as well as professional associations;
- the changing demographic of both the student population base and the methods of delivering continuing professional education
- the increased competition in today's economy for skilled employees and the recognition that effective education can be used to recruit and train employees;
- the continual development of new technology as a delivery channel for the types of products and services we offer;
- current economic conditions; and
- competition.

Over the last few years, we have experienced fluctuations in our annual net revenues due to various reasons, from the recession that began in 2008 and the resulting decrease in budgets and discretionary spending by many companies, to a change in spending patterns based upon what appears to be the start of a turn around in our economy. We are also experiencing a general change in the preferred delivery method of education from live training to delivery through the Internet. Nevertheless, since 2009 we have experienced an overall decrease in net revenues from \$16.6 million in 2009 to \$13.4 million in 2014 adjusted to reflect revenues from continuing operations. This decline in revenue is primarily due to decreased attendance at live training events as well as fluctuations in the usage of our various libraries. The decreased attendance at live events is due to a number of factors including a lack of new accounting pronouncements, competition, personnel reductions and budgetary, travel and time restraints for many of our client's as well as other factors.

While we have previously attempted to grow our business through acquisitions, we realize that we have not been able to achieve our intended goals due to many factors. We will still consider making acquisitions that will give us access to new markets and products, that make economic sense. 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 the capital available to us and the liquidity and price of our common stock. We may use debt to enhance or augment our ability to consummate larger transactions. There are many risks involved with acquisitions, some of which are discussed in Item 1A of Part 1 of this report under the caption "Certain Risk Factors That May Affect Our Growth and Profitability." These risks include identifying appropriate acquisition candidates, successfully negotiating the business, legal and financial terms of the acquisitions, 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 acquisition opportunities or negotiate reasonable terms or that any acquired business or assets will deliver the shareholder value that we anticipated at the outset.

Our performance for the recently completed 2014 fiscal year, resulted in decreased revenues from continuing operations of approximately \$1.8 million compared to 2013, as revenues from live training and usage of our course libraries decreased. In addition to the decreased revenues our gross profit margin decreased from 57.2% to 54.7%, although we reduced our costs by approximately \$427,000. In addition, our selling, general and administrative expenses decreased by approximately \$822,000 in 2014 compared to 2013. The decrease in net revenues was mainly attributable to the decrease in attendance and the reduction in the number of events in parts of our live seminar business, some of which were attributable to our Back to Basics Program, as well as decreased usage of our course library and the loss of some customers. Our core subscription-based business was relatively flat, as customers are either imposing restrictions on their employees or are seeking lower cost alternatives to fulfilling mandatory continuing education requirements. Overall net revenues from our accounting/finance division decreased as a consequence of these various factors. We have added new products, such as CPE administration, in an attempt to offset the decrease. We also had a decrease in net revenues in our engineering division, our Cognistar legal education and our Working Values Ethics subsidiary, as well as a decrease in net revenues from our Financial Services division.

In order to reduce our operating expenses, we eliminated live seminars that had sub-par performance which, while reducing gross revenue, had a positive impact on our operating results and as of year-end we have discontinued the Working Values Ethics division due to its poor performance. Our overall selling, general and administrative expenses decreased primarily due to reduced compensation expense, while we are re-directing our marketing expenditures, our overall expenditures for advertising and marketing costs were reduced in conjunction with the reduction in the number of live seminars. However,

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we recently retained a lead generation firm. The cost of maintaining our hardware and software continues to grow, as we replace older equipment and upgrade our ability to deliver online courses and webinars. As the overall business environment improves and in conjunction with our Back to Basics Plan, we may not see an overall increase in net revenues, but we anticipate a reduction in overall expenditures and an increase in profitability. We continually monitor our direct and selling, general and administrative costs and make the necessary adjustments where warranted. We are also always looking for new markets and distribution channels for our existing products and we continue to upgrade our library, create new products and develop new technology.

#### Seasonality and Cyclicity

Historically, our operating results have fluctuated from quarter to quarter, primarily because a portion of our business is non-subscription based. Custom jobs and consulting work are subject to both the general business climate and client's needs. Net revenue from our Engineering division is subject to staffing levels in both the private and public sector and the timing of various licensing exams. In economic downturns, staff reductions result in fewer people taking professional engineering licensing exams. Our subscription-based revenue is spread over the life of the subscription which is generally one year and can be effected by staff reductions as well. Our live training divisions of Loscalzo and EEI, have quarterly fluctuations in their revenues and we expect this trend to continue for the foreseeable future. Both Loscalzo and EEI generate most of their revenue from live programs. In EEI's case, the revenue is recognized almost exclusively in the second and fourth quarters, when the sessions take place. In Loscalzo's case, the revenue tends to be recognized over the second, third and fourth quarters, with the fourth quarter revenue being the greatest. While the costs that are directly related to the production of this revenue are incurred over the same period, both Loscalzo and EEI have general and administrative expenses that are incurred ratably over the year, contributing to the fluctuations in our operating results.

#### 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

A large portion of our net revenues is in the form of subscription fees for our monthly accounting update programs or access to our accounting, financial services, legal and information technology course libraries. Other sources of net revenues include direct sales of programs or courses on a non-subscription basis or from various forms of live education, fees for design, software development, video production, course design and development, ongoing maintenance of the LMS, and licensing fees. Subscriptions are billed on an annual basis, payable in advance and deferred at the time of billing. 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.

Revenues from subscription services are recognized as earned; deferred at the time of billing or payment and amortized into revenue on a monthly basis over the term of the subscription. Engineering products are non-subscription based and revenue is recognized upon shipment of the product or, in the case of online sales, payment. Revenues from live programs are recognized when earned, usually upon the completion of the seminar or conference. Revenues from non-subscription services provided to customers, such as website design, video production, consulting services and custom projects are generally recognized on a percentage of completion 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 obtain either a signed agreement or purchase order 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. We have recently hired additional sales and sales support personnel based on recent improvements in general economic conditions and we want to be in a position to be able to address increased customer demand for our products and services.

#### Impairment of goodwill and long-lived assets

We evaluate the carrying value of goodwill and the recoverability of identifiable intangible assets and other long-lived tangible assets during the fourth quarter of each year and or whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered or are impaired.

Goodwill is evaluated by comparing the value of the reporting unit to the reporting unit's carrying amount including goodwill. The fair value of the reporting unit is estimated using a combination of discounted cash flows approach and the market approach, which utilizes comparable company's data. If the carrying amount of a reporting unit exceeds its fair value, then the amount of impairment loss must be measured. The impairment would be calculated by comparing the implied fair value of the reporting unit goodwill to its carrying amount. Any impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value.

The evaluation of the recoverability of identifiable intangible assets is measured by comparing the carrying amount of the asset against estimated undiscounted cash flows associated with it. Impairment may be caused by a number of factors, including a significant decrease in the market value of an asset or a significant adverse change in the manner in which the asset is being used. The evaluation of asset impairment requires us to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

Upon completing our review, testing and considerable analysis including significant assumptions and judgments by management for the current period, we did not recognize any impairment from our intangible assets. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely, heavily, on projections of future operating performance. There is no assurance that such results will be achieved and in that case we may be required to record an additional impairment to our goodwill and other long-lived intangible assets in future periods.

#### Stock-based compensation

Compensation costs are recognized in the financial statements at fair value for stock options or grants awarded to employees and directors. 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 granted. The fair value of the options at grant date were estimated using the Black-Scholes Option Pricing Model. Stock grants to employees and directors are charged to expense at the closing price of our common stock at date of grant.

#### Segment reporting

All of our operations constitute a single segment, that of educational services. Net revenues from non-educational services, such as video production are not a material part of our operating income.

#### Income taxes

We account for deferred tax assets available principally from our fixed and intangible assets and our net operating loss carryforwards in accordance with the Accounting Standards Codification. We make significant estimates and assumptions in calculating our current period income tax liability and deferred tax assets. The most significant of these are estimates regarding future period earnings. Our net deferred tax asset is estimated by management using a three-year taxable income projection that incorporates significant estimates and assumptions of future operating periods, including potential new business from either the introduction of new products or greater sales efforts, as well as planned cost reductions.

#### Discontinued Operations

The income or loss from the operations of a division or subsidiary whose operating assets have been sold are treated as discontinued and not included in the operating results. In December 2014, we sold the operating and other assets of our Skye Multimedia Ltd. (Skye) subsidiary. The net results of this transaction have been reflected in the loss or income from discontinued operations, as we are required to restate the prior period to reflect this transaction.

#### Results of Operations

##### Comparison of the years ended December 31, 2014 and 2013

The following table compares our statement of operations data for the years ended December 31, 2014, and 2013. 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 education) and the method of

sale (video or online). In addition, the discussion below refers to continuing operations unless otherwise referred to.

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	Year ended December 31					
	2014		2013		Change	
	Amount	Percentage	Amount	Percentage		
Net revenues	\$ 13,487,917	100.0 %	\$ 15,263,083	100.0 %	(11.6	)%
Cost of revenues	6,105,117	45.3 %	6,531,922	42.8 %	(6.5	)%
Gross profit	7,382,800	54.7 %	8,731,161	57.2 %	(15.4	)%
Selling, general and administrative	6,759,368	50.1 %	7,581,786	49.7 %	(10.8	)%
Depreciation and amortization	1,101,698	8.2 %	1,115,403	7.3 %	(1.2	)%
Total operating expenses	7,861,066	58.3 %	8,697,189	57.0 %	(9.6	)%
Operating (loss) income	(478,266 )	(3.5 )%	33,972	0.2 %	1,507.8	%
Other income, net	16,810	0.1 %	27,453	0.2 %	(38.8	)%
(Loss) income from continuing operations before taxes	(461,456 )	(3.4 )%	61,425	0.4 %	(851.3	)%
Provision for income taxes	(403,543 )	(175.9 )%	(24,268 )	0.4 %	(1,562.9	)%
(Loss) income from continuing operations	(864,999 )	(3.4 )%	37,157	0.2 %	(2,428.0	)%
(Loss) income from discontinued operations	(770,265 )	(5.7 )%	105,766	0.7 %	(828.3	)%
Net (loss) income	\$(1,635,264 )	(9.2 )%	\$ 142,923	0.9 %	(1,244.2	)%

#### Net revenues

Net revenues for 2014 decreased 11.6%, compared to net revenues for 2013, primarily as a result of decline in revenues from live training and course usage in our accounting library. Our live education businesses represents approximately 26% of our net revenues. Net revenues from subscription-based and non-subscription based products delivered on-line, exclusive of advertising and other service income accounted for approximately \$5.7 million, or 43%, of our net revenues.

Net revenues from our accounting/finance division decreased in absolute dollars by approximately \$1.6 million but decreased slightly as a percentage of total net revenues, from 82% in 2013 to 80.7% in 2014. Net revenues from our accounting/finance and related products decreased from approximately \$12.4 million in 2013 to \$10.8 million in 2014. Net revenues from accounting/finance products including both subscription and non-subscription based revenue was \$7.4 million in 2014 and \$8.4 million in 2013. Net revenues from live programs and custom work were approximately \$3.4 million in 2014 as compared to \$4.0 million in 2013, a decrease of approximately \$600,000. This decline as previously discussed is the result of reduced attendance at seminars and/or the cancellation of poorly performing seminars.

Net revenues from sales of our engineering products, which are not subscription-based, were \$354,000 in 2014, compared to \$467,000 in 2013. The decline in engineering net revenues is due to a number of reasons including the need to update our course content in order to comply with new rules and regulations, fewer exam candidates and purchasing curtailments by both engineering firms and governmental agencies. For most of 2014, our PE and FE courses were not being distributed by our association partners until they were updated. We recently completed the updates of all of our exam preparatory courses in order to comply with current regulations. In addition to updating some of our existing courses, we recently added our "Construction Project Management Course" to our library. We are constantly seeking partners to either market our products or share their content with our customers. Engineering revenues include sales of our human resources, health and safety courses and our Watch-IT technology subscription-based product.

Net revenues from SLE decreased from \$424,000 in 2013 to \$346,000 in 2014. This decrease was primarily due to a decrease of \$67,000 from our Cognistar legal division, and a decrease of \$11,000 from our Working Value ethics



division. As of year-end, we have closed the Ethics division as part of our Back to Basics program. The decrease in Cognistar net revenues is due to reduced usage of our course material. In addition, a revenue sharing relationship for the use of a portal that we created has not generated the revenues that were originally anticipated.

Our financial services education division generated net revenues of \$1.62 million in 2014, compared to \$1.8 million in 2013. The decrease is primarily a result of the completion of custom work in 2013, and the loss of a client.

Net revenues from video production, duplication and consulting services increased in 2014 to \$352,000 from \$134,000 in 2013, as a result of increased consulting work as well as additional revenue from video production work. Video production and duplication income fluctuates annually, but overall they continue to decline. The duplication business has declined because tape is no longer used and we do not have the capability of doing very large DVD duplication projects. Our video production facility is primarily used for internal work and income results from either renting our facilities and/or our equipment or producing a custom program. Consulting work varies from year to year and sales are credited to the department from which they originate and not to the department where the work is performed.

#### Cost of revenues

Cost of revenues includes (i) production costs, such as the salaries, benefits and other costs related to personnel, whether our employees or independent contractors, who are used directly in connection with producing or conducting our educational programs, (ii) royalties paid to third parties, (iii) the cost of materials, such as DVDs, printed matter and packaging materials and (iv) shipping costs. Compared to 2013, cost of revenues in 2014 decreased by approximately \$427,000 from \$6.5 million in 2013 to \$6.1 million in 2014, and is primarily related to the reduction in out-sourced personnel and costs related to hosting live training events. We have reduced the number of people and the amount expended for out-sourced technology personnel. As we reduce the number of live events the costs of running them decrease as well, resulting in a decline of approximately \$91,000 in 2014 from 2013. Although, the cost of revenues decreased in real dollars as a percentage of net revenues, they increased to 45.3% in 2014 from 42.8% in 2013. This resulted in a corresponding (15.4)% decrease in our gross profit margin from \$8.73 million in 2013 to \$7.38 million in 2014.

There are many different types of expenses that are characterized as production costs and they vary from period to period depending on many factors. The expenses that showed the greatest variations from 2013 to 2014 and the reasons for those variations are 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 and the outsourcing of non-video technology. It also includes the costs of instructors for live programs and the production of those courses. These costs decreased by approximately \$153,000 in 2014 from 2013. We have reduced the cost of out-sourced technology personnel used to provide technology services and help develop new products. Loscalzo and EEI employ a number of consultants to develop course material, in addition to hiring instructors to deliver programs throughout the United States. We have been outsourcing some of the programming and content development functions to firms outside of the United States. Direct production costs, which are costs related to producing videos other than labor costs — such as the cost of renting equipment and locations, and the purchase of materials — decreased by \$38,000. These variations are related to the type of video production and custom projects and do not reflect any trends in our business.

**Salaries.** Overall payroll and related costs attributable to production personnel increased by approximately \$26,000. The increase was primarily attributable to reduced capitalization of employees salaries in the technology group, as our overall headcount did not increase. Salaries and related costs from our Loscalzo subsidiary decreased approximately \$35,000 as a result of the loss of an employee, offset by a re-allocation of the division's president's duties. Our FC division accounted for an additional \$6,000 in savings. We also reduced salaries in our EEI division by approximately \$29,000.

**Royalties.** Royalty expense decreased by \$118,000 in 2014, from approximately \$1.07 million in 2013 to \$953,000 in 2014. Royalty expense is directly related to sales of certain products in our accounting and engineering catalogs, and as usage fluctuates so does our royalty expense. We often have to estimate the royalty expense due our partners, as the information may not be readily available. Additionally, we have added over 100 courses to our accounting course library in 2014, a number of which were written by our employees on which there are no royalties. If volume increases or if we enter into new agreements or modify existing agreements, the actual royalty payments in 2015 under these agreements may be either higher or lower than they were in 2014.

Other costs. This includes the cost of venues for our live educational program business, travel for instructors and others, shipping costs and other miscellaneous expenses. These other costs decreased by \$143,000, primarily related to our live education business. The largest component of these expenses are venue, travel and course administration costs that decreased by \$91,000 in 2014 from 2013. Travel costs incurred by Loscalzo are often billed to their respective clients.

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

#### Selling, general and administrative expenses

Selling, general and administrative expenses include corporate overhead such as (i) compensation and benefits for executive, administrative, sales and marketing and finance personnel, (ii) rent, (iii) insurance, (iv) professional fees, (v) travel and entertainment and (vi) office expenses. Selling, general and administrative expenses in 2014 decreased by approximately 10.8%, to \$822,000. The decrease in terms of actual expenses is primarily from reductions in payroll and related costs as our headcount has been reduced. Reductions in compensation expense totaled \$547,000 in 2014. Our other overhead expenses for rent, out-sourced customer service and sales, advertising, promotional material and other selling expenses decreased by approximately \$329,000. Exclusive of the overall decreases, expenses related to technology costs increased by approximately \$54,000 as we continually add to our computer and related equipment and upgrade our ability to deliver over the Internet. The cost of maintaining our technology, such as annual software and maintenance licenses as well as our bandwidth costs continue to increase. In addition, in conformity with applicable accounting standards, we are expensing the costs associated with the grants of options and restricted stock to employees and directors. This non-cash expense in 2014 was approximately \$48,000 and \$105,000 in 2013. We anticipate that selling, general and administrative expenses will decline in 2015 at our current level of operations, as we anticipate seeing the full benefit of our Back to Basics Plan.

#### Depreciation and amortization

Depreciation and amortization expenses were \$14,000 lower in 2014 than they were in 2013. This decrease is primarily from the amortization of internally developed software and courses, as many of the intangible assets acquired in acquisitions are now fully amortized, as well as the cost of developing eCampus. However, this is offset by increases in amortization expense from our other technology products such as our Audit Management System and Accreditation System, as well as the continual additions to our course library. Although we continually upgrade our computer hardware and systems, and with most of our projects either completed or near completion, we expect our depreciation and amortization expenses on our fixed and intangible assets to decrease, as many of the assets acquired in prior acquisitions are either fully or nearly completely amortized and a substantial portion of the eCampus cost of \$2.19 million is now amortized.

#### Impairment of goodwill

We regularly monitor our goodwill and other long-lived assets for impairment. We perform an annual review prior to our year end or when circumstances indicate an event has occurred that would cause an earlier review of goodwill. There was no impairment in 2014, after writing-off the remaining goodwill from Skye as part of our loss from discontinued operations. We will continue to monitor these assets for any possible future impairment. It is possible that based on future operating results that we may incur additional impairment to this and our other long-lived assets.

#### Operating (loss) income

For 2014, our operating loss was \$478,000, compared to an operating income of \$34,000 in 2013. The decrease in net revenues of approximately \$1.8 million, offset by reduced selling, general and administrative expenses of approximately \$822,000 are the primary reasons for the approximately \$512,000 decrease in operating income.

#### Other income, net

Other income and expense items primarily consist of interest earned on deposits. We currently have no outstanding debt, other than normal trade payables. Net interest income decreased from 2013 to 2014, as a result of lower interest rates and reduced cash.

#### Income tax expense

In 2014, we recorded a net tax expense from continuing operations of approximately \$403,500 compared to a \$24,300 net tax expense in 2013. We have analyzed all of the components of the deferred tax assets and liabilities and have decreased our net deferred tax asset by \$400,000 to \$200,000 in 2014, after increasing our valuation allowance to approximately \$2,972,000, as compared to a \$600,000 net deferred tax asset and a \$1,588,000 valuation allowance in 2013. The 2014 and 2013 state and local tax expense from continuing operations is approximately \$3,500 and \$24,300, respectively.

#### (Loss) income from continuing operations

For 2014, we recorded a net loss from continuing operations of \$865,000 compared to a net income of \$37,000 in 2013. The decrease in net income is primarily due to the operating results previously outlined above and the

write-down of our deferred tax asset by \$400,000.

(Loss) income from discontinued operations

In December 2014, we sold the operating and other assets of Skye. The loss on sale from this transaction, included the write-off of the remaining goodwill of approximately \$351,000.

Net (loss) income

The net loss for 2014 was approximately \$1.63 million, or (\$.19) and (\$.16) per common share both basic and diluted from continuing and discontinued operations, respectively. The comparable results for 2013 was a net income of approximately \$143,000 or \$.01 and \$.02 per common share both basic and diluted from continuing and discontinued operations, respectively.

Liquidity and Capital Resources

Since becoming a public company in 2004, we have financed our working capital requirements entirely through our business operations. We have not had any further sales of stock or incurred any funded debt.

Our working capital as of December 31, 2014, was approximately \$1.3 million compared to a \$2.2 million working capital as of December 31, 2013. The decrease is attributable to a number of factors including the payment of approximately \$281,000 in dividends, and \$161,000 for the repurchase of our common stock under our stock buy back program. Our current ratio at December 31, 2014, is 1.21 to 1, compared to 1.37 to 1 at December 31, 2013. 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, approximately \$4.8 million and \$4.4 million at December 31, 2014 and 2013, respectively, is deferred revenue, which is revenue collected or billed but not yet earned under the principles of revenue recognition. Most of this deferred revenue at December 31, 2014 is in the form of subscription fees and will be earned during 2015. The cost of fulfilling our monthly subscription obligation does not exceed this revenue and is booked to expense as incurred. There are several large multi-year contracts that are billed annually and those future billings are not reflected in deferred revenue. 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 year ended December 31, 2014, we had a net decrease in cash of approximately \$500,000. We generated \$737,000 in cash from operations, offset by \$788,000 of cash used in investing activities, of which \$115,000 was used for asset acquisitions and \$673,000 for the capitalization of software and courses. In addition, our financing activities used cash of \$442,000 which consists of \$161,000 for the repurchase of our common stock under our stock buy back program and \$281,000 for the payment of dividends. The primary components of our operating cash flows are our net income adjusted for non-cash expenses, such as depreciation and amortization, and the changes in accounts receivable, accounts payable and deferred revenues.

In comparison, for the year-ended December 31, 2013, we had a \$385,000 increase in cash. That increase was a result of cash generated by operations of \$1.41 million, that was offset by cash expended for investing activities of \$641,000 (after the redemption of a certificate of deposit for \$500,000) primarily for asset acquisitions and capitalization of software and courses, and \$386,000 of financing activities expended for the repurchase of our common stock under our stock buy back program and the payment of dividends.

Capital expenditures for the year ended December 31, 2014, were approximately \$791,900, of which \$118,000 consisted primarily of computer equipment and software. We capitalized \$673,000 of costs for the production of various courses and software. We are constantly reviewing and upgrading our technology. For fiscal 2015, we have budgeted approximately \$250,000 for capital expenditures (other than software and course development costs). We believe that our current cash balances together with cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the next 12 months.

On March 5, 2015, our Board of Directors declared a dividend of \$.015 per common share payable on April 7, 2015, to shareholders of record on March 20, 2015.

In November 2014, our Board of Directors approved a new stock buy-back program under which \$350,000 of company funds may be used to purchase shares of our common stock. As of March 23, 2015, we have purchased a total of 69,469 shares for an aggregate cost of \$120,293 under this program.

Contractual Obligation, Commitments and Contingencies

As of December 31, 2014, we had commitments under various leases for our offices in Hawthorne, New York and Loscalzo's office in Shrewsbury, New Jersey. The total aggregate commitment under these leases is approximately \$1.54

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million through January 2019. The lease for the Loscalzo office expires on December 31, 2016, at a monthly rent of approximately \$4,100.

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 rate 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 that we will be successful in generating sufficient capital to adequately fund our liquidity needs.

#### Interest Rate Risk

Interest rate risk represents the potential loss from adverse changes in market interest rates. As we may hold U.S. Treasury securities or money market funds, we may be exposed to interest rate risk arising from changes in the level and volatility of interest rates and in the shape of the yield curve.

#### Credit Risk

Most of our cash is held in deposit accounts, U.S. Treasury and non-Treasury money market funds. Our bank deposit accounts are insured by the U.S. government but only up to a maximum of \$250,000 at any one bank. Our money market funds are held in a brokerage account that is insured by the Security Industry Protection Corp. up to \$500,000 and various brokerage firms may carry additional insurance from commercial insurance companies. Our cash balances vary from time to time based on a variety of factors but in some cases are significantly in excess of the insurable limit. As a result, we have exposure on these accounts in the event these financial institutions become insolvent. In addition, we may have credit risk with respect to customers who default on custom orders or who default on subscription payments.

#### Recent Accounting Pronouncements

In April 2014, The Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which updated the criteria for reporting discontinued operations included in Subtopic 205-20. The amendments in this update require an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively of the statement of financial position. The amendments also require additional disclosure about discontinued operations. The standard is effective for interim and annual periods beginning on or after December 15, 2014. At this time the update does not have a material impact on the Company's results and will be adopted for reporting on periods starting January 2015.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue From Contracts With Customers" that deals with Topic 606-Revenue From Contracts with Customers and added a new Subtopic 340-40 "Others Assets and Deferred Costs" to its Accounting Standards Codification (Codification). The purpose of these changes to the codification are to remove inconsistencies and weaknesses in revenue recognition, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practice across entities, provide more useful information to users of financial statements through increased disclosure and simplify the preparation of financial statements by reducing the number of requirements to which an entity may refer. These amendments are effective for years ending after December 15, 2016 and early application is not permitted. At this time the Company has not made an evaluation as to the effect these amendments will have on its financial statements. In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern. Disclosure of Uncertainties about Entity's ability to continue as a going concern." Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. This amendment now provides guidance by providing a definition of substantial doubt, requires evaluation by management every reporting period for going concern issues, provides principles for considering any mitigating effects implemented by management, and the disclosures required for the assessment period of one year after issuance of the financial statements. This update becomes effective for interim and annual reporting periods beginning after December 15, 2016 with early application being permitted. The update does not have a material impact on the Company's results and will be adopted for reporting periods starting January 2015.



Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are a “smaller reporting company,” as defined by Regulation S-K, and, as such, we are not required to provide the information contained in this item pursuant to Regulation S-K.

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Item 8. Financial Statements

See the index to Financial Statements below, beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures. Management, with the participation of our principal executive officer and the principal financial officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the “Evaluation Date”). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within SmartPros Ltd., have been detected.

b) Management’s Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in rule 13a-15(f) under the Exchange Act). Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control-Integrated Framework in 1992 (the “1992 Framework”). Our management has concluded that, as of December 31, 2014, our internal control over financial reporting is effective based on these criteria. In May 2013, COSO issued an update to the 1992 Framework.

c) Changes in Internal Control over Financial Reporting. There were no changes in our internal controls over financial reporting that occurred during our fiscal fourth quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act.

The information in response to this Item will be included in our Proxy Statement in connection with our 2015 annual meeting of stockholders, which information is incorporated by reference herein.

Code of Ethics

We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer and other persons performing similar functions, and all of our other employees and directors. The Code of Ethics is posted on our Website at <http://ir.smartpros.com>. Amendments to and waivers from the Code of Ethics will also be posted on our Website.

**Item 11. Executive Compensation**

The information in response to this Item will be included in our Proxy Statement in connection with our 2015 annual meeting of stockholders, which information is incorporated by reference herein.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information in response to this Item will be included in our Proxy Statement in connection with our 2015 annual meeting of stockholders, which information is incorporated by reference herein.

**Item 13. Certain Relationships and Related Transactions and Director Independence**

The information in response to this Item will be included in our Proxy Statement in connection with our 2015 annual meeting of stockholders, which information is incorporated by reference herein.

**Item 14. Principal Accountant Fees and Services**

The information in response to this Item will be included in our Proxy Statement in connection with our 2015 annual meeting of stockholders, which information is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) The following documents are filed as part of this report:  
 (1 ) Financial Statements – See the Index to the consolidated financial statements on page F-2.
- (b) Exhibits:

Exhibit No.	Description
3.1	Certificate of Incorporation, as amended (1)
3.2	Amended and Restated By-Laws, as amended (1)
4.1	Specimen stock certificate (1)
10.1	**2009 Incentive Compensation Plan (2)
10.2	**Employment Agreement, dated as of February 1, 2007, between Allen S. Greene and SmartPros, Ltd. (3)
10.3	**Seconded Amended Employment Agreement, dated as of October 1, 2008, between SmartPros Ltd. and Jack Fingerhut, dated as of (4)
10.4	**Amended Employment Agreement, dated as of July 1, 2008, between SmartPros Ltd. and Stanley Wirtheim, dated as of (4)
10.5	**First Amendment to Employment Agreement, dated as of October 1, 2008, between SmartPros Ltd. and Joseph Fish, dated as of (4)
10.6	Lease for premises at 12 Skyline Drive, Hawthorne, New York (7)
10.7	**Letter of Agreement between SmartPros Ltd. and Allen S. Greene re: restricted stock (1)
10.9	**Final form of Restricted Stock Agreement, dated as of January 29, 2007, executed by Allen S. Greene, Jack Fingerhut, Stanley Wirtheim, Joseph Fish and David Gebler (3)
10.10	**Amendment to Employment Agreement between SmartPros.Ltd and Jack Fingerhut, dated March 8, 2012 (5)
10.11	**Amendment to Employment Agreement between Smartpros.Ltd and Joseph Fish, dated March 8, 2012 (5)
10.12	**Amendment to Employment Agreement between SmartPros.Ltd. and Stanley Wirtheim, dated March 8, 2012 (5)
14.1	Code of Ethics (6)
21.1	Subsidiaries(7)

- 23.1 Consent of Baker Tilly Virchow Krause, LLP\*
- 31.1 Principal Executive Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002\*
- 31.2 Principal Financial Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002\*
- 32.1 Principal Executive Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002\*\*\*
- 32.2 Principal Financial Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002\*\*\*

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101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

Notes to Exhibit Index

\* Filed herewith.

\*\* This exhibit is a management contract or compensatory plan or arrangement.

\*\*\* Furnished herewith in accordance with Item 601(32)(ii) of Regulation S-K.

(1 ) Filed as an exhibit to our Registration Statement on Form SB-2 (No. 333-115454), effective as of October 19, 2004, and incorporated herein by reference.

(2 ) Filed on April 27, 2009, as Appendix A to our Definitive Proxy Statement, DEF14A, for the 2009 annual meeting of stockholders and incorporated herein by reference.

(3 ) Filed on February 2, 2007, as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.

(4 ) Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.

(5 ) Filed as an exhibit to our Current Report on Form 8-K, on March 8, 2012, and incorporated herein by reference.

(6 ) The Code of Ethics is posted on our Website at <http://ir.smartpros.com>.

(7 ) Filed as an exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and incorporated herein by reference.

(c) Information required by schedules called for under Regulation S-X is either not applicable or is included in the consolidated financial statements or notes thereto.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SmartPros Ltd.

By: /s/ Allen S. Greene  
Allen S. Greene  
Chief Executive Officer

Date: March 24, 2015

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In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 24, 2015.

Signature	Title
Principal Executive Officer	
/s/ Allen S. Greene Allen S. Greene	Chief Executive Officer
Principal Financial Officer	
/s/ Stanley P. Wirtheim Stanley P. Wirtheim	Chief Financial Officer
Directors	
/s/ Allen S. Greene Allen S. Greene	Chairman of the Board of Directors
/s/ John J. Gorman John J. Gorman	Director
/s/ Jack Fingerhut Jack Fingerhut	Director
/s/ Leonard J. Stanley Leonard J. Stanley	Director
/s/ Martin H. Lager Martin H. Lager	Director

SMARTPROS LTD.  
AND SUBSIDIARIES

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CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013

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SMARTPROS LTD.  
AND SUBSIDIARIES

Years Ended December 31, 2014 and 2013

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Report of Independent Registered Public Accounting Firm  
To the Shareholders, Audit Committee and Board of Directors  
SmartPros Ltd.  
Hawthorne, New York

We have audited the accompanying consolidated balance sheets of SmartPros Ltd. and Subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SmartPros Ltd. and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Baker Tilly Virchow Krause, LLP  
Melville, New York

March 24, 2015

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SMARTPROS LTD.  
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31,	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	\$4,810,982	\$5,303,657
Accounts receivable, net of allowance for doubtful accounts of approximately \$20,000 at December 31, 2014 and 2013, respectively	1,668,942	2,430,495
Prepaid expenses and other current assets	406,173	340,463
Current assets of discontinued operations	414,296	—
Total Current Assets	7,300,393	8,074,615
Property and Equipment, net	427,241	566,475
Goodwill	2,456,474	2,807,257
Other Intangibles, net	3,295,958	3,516,411
Other Assets, including restricted cash of \$75,000 at December 31, 2014 and 2013, respectively	94,479	104,515
Deferred Tax Asset	200,000	600,000
Investment in Joint Venture	—	2,268
Non-current assets of discontinued operations	4,673	—
Total Assets	\$13,779,218	\$15,671,541
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$875,019	\$1,203,222
Accrued expenses	227,021	234,863
Deferred revenue	4,752,356	4,395,166
Dividend payable	69,157	70,289
Current liabilities of discontinued operations	120,066	—
Total Current Liabilities	6,043,619	5,903,540
Long-Term Liabilities:		
Other liabilities	66,106	70,378
Total Long-Term Liabilities	66,106	70,378
Total Liabilities	6,109,725	5,973,918
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, \$.001 par value; 1,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$.0001 par value; 30,000,000 shares authorized, 5,665,433 shares issued as of December 31, 2014 and 2013, respectively, and 4,598,325 and 4,684,441 shares outstanding as of December 31, 2014 and 2013, respectively	567	567
Additional paid-in capital	16,985,235	17,217,008
Accumulated deficit	(6,469,484 )	(4,834,220 )
Common stock in treasury, at cost - 1,067,108 and 980,992 shares as of December 31, 2014 and 2013, respectively	(2,846,825 )	(2,685,732 )
Total Stockholders' Equity	7,669,493	9,697,623
Total Liabilities and Stockholders' Equity	\$13,779,218	\$15,671,541

See independent auditor's report and notes to consolidated financial statements.

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SMARTPROS LTD.  
AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended December 31,	2014	2013
Net Revenues	\$13,487,917	\$15,263,083
Cost of Revenues	6,105,117	6,531,922
Gross Profit	7,382,800	8,731,161
Operating Expenses:		
Selling, general and administrative	6,759,368	7,581,786
Depreciation and amortization	1,101,698	1,115,403
Total Operating Expenses	7,861,066	8,697,189
Operating (Loss) Income	(478,266 )	33,972
Other Income (Expense):		
Interest and dividend income, net	16,810	27,453
Total Other Income	16,810	27,453
(Loss) Income From Continuing Operations Before Income Taxes	(461,456 )	61,425
Provision for Income Taxes	(403,543 )	(24,268 )
(Loss) Income From Continuing Operations	(864,999 )	37,157
(Loss) Income From Discontinued Operations, net of taxes	(770,265 )	105,766
Net (Loss) Income	\$(1,635,264 )	\$142,923
Net income (loss) per Common Share:		
Basic (loss) income per common share from continuing operations	\$(0.19 )	\$0.01
Basic (loss) income per common share from discontinued operations	\$(0.16 )	\$0.02
Basic net (loss) income	\$(0.35 )	\$0.03
Diluted (loss) per common share from continuing operations	\$(0.19 )	\$0.01
Diluted (loss) per common share from discontinued operations	\$(0.16 )	\$0.02
Diluted net (loss) income	\$(0.35 )	\$0.03
Weighted Average Number of Common Shares Outstanding:		
Basic	4,672,828	4,680,232
Diluted	4,672,828	4,686,074

See independent auditor's report and notes to consolidated financial statements.

SMARTPROS LTD.  
AND SUBSIDIARIESConsolidated Statement of Stockholders' Equity  
Years Ended December 31, 2014 and 2013

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2012	—	\$—	5,622,433	\$ 563	\$ 17,393,260	\$(4,977,143)	\$(2,569,625)	\$ 9,847,055
Dividends	—	—	—	—	(281,036 )	—	—	(281,036 )
Shares issued from Restricted Stock Plan	—	—	43,000	4	(4 )	—	—	—
Stock Compensation Expense	—	—	—	—	104,788	—	—	104,788
Purchase of Treasury Shares	—	—	—	—	—	—	(116,107 )	(116,107 )
Net income	—	—	—	—	—	142,923	—	142,923
Balance, December 31, 2013	—	—	5,665,433	567	17,217,008	(4,834,220 )	(2,685,732 )	9,697,623
Dividends	—	—	—	—	(279,567 )	—	—	(279,567 )
Stock Compensation Expense	—	—	—	—	47,794	—	—	47,794
Purchase of Treasury Shares	—	—	—	—	—	—	(161,093 )	(161,093 )
Net (loss)	—	—	—	—	—	(1,635,264 )	—	(1,635,264 )
Balance, December 31, 2014	—	\$—	5,665,433	\$ 567	\$ 16,985,235	\$(6,469,484)	\$(2,846,825)	\$ 7,669,493

See independent auditor's report and notes to consolidated financial statements.

SMARTPROS LTD.  
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31,	2014	2013
Cash Flows from Operating Activities:		
Net income (loss)	\$(1,635,264 )	\$ 142,923
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,101,698	1,131,499
Stock compensation expense	47,794	104,788
Deferred income tax provision	400,000	—
Loss from sale of discontinued operation	542,115	—
Loss from joint venture	—	5,977
Deferred rent	(4,272 )	) 6,780
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	96,882	182,214
Prepaid expenses and other current assets	(65,710 )	) (8,970 )
Other assets	5,363	—
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(215,979 )	) 458,216
Deferred revenue	464,631	(611,330 )
Total adjustments	2,372,522	1,269,174
Net Cash Provided by Operating Activities	737,258	1,412,097
Cash Flows from Investing Activities:		
Redemption of certificates of deposit	—	500,000
Acquisition of property and equipment	(114,952 )	) (271,881 )
Capitalized course costs and software development	(673,188 )	) (864,312 )
Investment in joint venture	—	(5,000 )
Net Cash Used in Investing Activities	(788,140 )	) (641,193 )
Cash Flows from Financing Activities:		
Purchase of treasury shares	(161,093 )	) (116,107 )
Dividends paid	(280,700 )	) (269,683 )
Net Cash Used in Financing Activities	(441,793 )	) (385,790 )
Net Increase (Decrease) in Cash and Cash Equivalents	(492,675 )	) 385,114
Cash and Cash Equivalents, beginning of year	5,303,657	4,918,543
Cash and Cash Equivalents, end of year	\$4,810,982	\$5,303,657
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$—	\$—
Cash paid for income taxes	\$3,543	\$25,420

See independent auditor's report and notes to consolidated financial statements.





SMARTPROS LTD.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2014 and 2013

1. Description of Business and Summary of Significant Accounting Policies

Nature of operations - SmartPros Ltd. and Subsidiaries (“SmartPros” or the “Company”), a Delaware corporation, was organized in 1981 for the purpose of producing continuing professional education primarily directed to the accounting profession. SmartPros' primary products are periodic subscription and non-subscriptions services delivered in either video format or over the Internet, directed to corporate accountants and financial managers, and accountants in public practice. Our Loscalzo Associates, Ltd. (“Loscalzo”) subsidiary, and our Executive Enterprises Institute (“EEI”) division, are leading providers of live training to accounting, legal, and financial services professionals. In addition, the Company produces a series of continuing education courses directed to the engineering profession, a series of courses designed for candidates for various professional engineering exams and training for information technology professionals. Its wholly-owned subsidiary, SmartPros Legal and Ethics, Ltd. (“SLE”) , through its Cognistar division, produces online and customized educational courses for the legal profession. The Company also has various other online content including a library of nationally certified training solutions for the banking, securities, and insurance industries, as well as a library for health, safety and human resources professionals. Some of these courses may also be designed for live programs. SmartPros also develops and hosts Websites, produces custom videos and rents out its video production studio for a fee. SmartPros' corporate headquarters is located in Hawthorne, New York, where it maintains its corporate offices, new media lab, and video production studio.

In 2014, the Company sold some of the assets of its Skye Multimedia Ltd. (Skye) subsidiary and discontinued the custom ethics business of its SLE subsidiary. The operating results and losses on the sale of the Skye assets have been presented as a discontinued operation in our Consolidated Statement of Operations.

Basis of presentation - The consolidated financial statements of SmartPros include the accounts of SmartPros and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

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

Revenue recognition - The Company recognizes revenue from its subscription services as earned. Subscriptions are generally billed in advance on an annual basis, deferred at the time of billing and amortized into revenue on a monthly basis over the term of the subscription, generally one year. Engineering products are non-subscription based and revenue is recognized upon shipment or, in the case of online sales, upon receipt of payment. Revenues from other non-subscription services, such as website design, video production, consulting services, and custom projects, are recognized on a percentage of completion method 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. The Company obtains either signed agreements or purchase orders from its non-subscription customers outlining the terms and conditions of the products or services to be provided. Otherwise, revenues are recognized after completion and/or delivery of services to the customer. Revenues from live programs are recognized upon completion of the conference or seminar, which usually last one to three days. Expenses directly related to the seminars, including marketing costs, are charged to operations in the period in which the seminar is held.

Segment reporting - The Company has evaluated the requirements under Topic 280, Segment Reporting, of the Accounting Standards Codification (“ASC”). The Company's management monitors the revenue streams of its various

products and services; however, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's operations are considered to be aggregated in one reportable segment, educational services.

Cash and cash equivalents - All highly liquid instruments with an original maturity of three months or less are considered cash equivalents. From time to time, the Company invests a portion of its excess cash in money market accounts that are stated at cost and approximate fair value.

Concentration of credit risk - Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, and accounts receivable. From time to time, the cash balances exceed insured limits. The

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SMARTPROS LTD.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2014 and 2013

Company's cash balances are deposited with high credit quality financial institutions to mitigate this risk. The Company closely monitors its cash investments in money market funds. No single customer represents a significant concentration (over 10%) of sales or receivables.

Accounts receivable - Accounts receivable are recorded at net realizable value which is the original invoice amount less an allowance. The allowance is established through a provision for bad debts charged to operations. Accounts receivable are charged against the allowance for doubtful accounts when management believes that collectability is unlikely. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing accounts receivable, based on an evaluation of the collectability of accounts receivable and prior bad debt experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the accounts receivable, overall accounts receivable quality, review of specific problem accounts receivable, and current economic conditions that may affect the customer's ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Accounts receivable are generally considered to be past due if any portion of the receivable balance is outstanding for more than 90 days.

Property and equipment - Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives, ranging from three to ten years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the life of the lease. Expenditures for maintenance and repairs are charged to operations as incurred and major expenditures for renewals and improvements are capitalized and depreciated over their useful lives.

Impairment of long-lived assets - The Company accounts for long-lived assets in accordance with the provisions of Topic 350 of the ASC, "Intangibles-Goodwill and Other". This topic establishes financial accounting and reporting standards for the impairment of long-lived assets and certain intangibles related to those assets to be held and used, and for long-lived assets and certain intangibles to be disposed of. The topic requires, among other things, that the Company review its long-lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If this review indicates that the long-lived asset will not be recoverable, as determined based on the estimated undiscounted cash flows over the remaining amortization period, the carrying amount of the asset is reduced to its estimated fair value. The Company believes that none of the long-lived assets were impaired as of December 31, 2014 and 2013.

Goodwill - Goodwill represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identified intangible assets. Goodwill is assessed at least annually for impairment and any such impairment is recognized in the period identified. At December 31, 2014, The Company performed its assessment and determined that goodwill related to its Loscalzo subsidiary was not impaired. The Company's 2014 assessment did not identify any impairment to its goodwill.

Fair value measurements-Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The Company must determine whether its assets and liabilities recorded at fair value were based on Level 1 (value based on quoted prices in an active market for identical assets), Level 2 (value based on significant other observable inputs) or Level 3 (value based on significant unobservable inputs) measurements within the fair value hierarchy.

The methods and assumptions used to estimate the fair value of the following classes of financial instruments were:  
Current assets and current liabilities-The fair values of cash, accounts receivable, payables, and certain other short-term financial instruments approximate their carrying value due to their short-term maturities.

Intangible assets - Intangible assets are amortized on a straight-line basis over their estimated useful lives, which vary from 3 to 19 years. The Company performs an annual assessment or when events or circumstance indicate that an impairment may have occurred. The Company performed its annual assessment of its intangible assets and found no impairments as of December 31, 2014 and 2013.

Capitalized course costs - Capitalized course costs include the direct cost of internally developing proprietary educational products and materials that have extended useful lives. Amortization of these capitalized course costs commences when the courses are available for sale from the Company's catalog. The Company has capitalized approximately \$131,000 and \$142,000

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SMARTPROS LTD.  
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Notes to Consolidated Financial Statements  
Years Ended December 31, 2014 and 2013

of such costs for the years ended December 31, 2014 and 2013, respectively. The amortization period is generally five to ten years for courses either purchased or developed internally. Other course costs incurred in connection with any of the Company's monthly subscription products or custom work is charged to operations as incurred.

Capitalized software - The Company has developed an Audit Management System ("AMS") as well as other products and has capitalized those costs in accordance with the provisions of Topic 350, "Internal-Use Software". Total capitalized costs were approximately \$3,980,000 and \$3,470,000 as of December 31, 2014 and 2013, respectively. Amortization expense for 2014 and 2013 was approximately \$463,000 and \$539,000, respectively.

Deferred revenue - Deferred revenue related to subscription services represents the portion of unearned subscription revenue, which is amortized on a straight-line basis over the subscription period, as earned. Deferred revenue related to web site design and video production services represents that portion of amounts billed by the Company, or cash collected by the Company, for which services have not yet been provided or earned in accordance with the Company's revenue recognition policy.

Income taxes - Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company measures and recognizes the tax implications of positions taken or expected to be taken in its tax returns on an ongoing basis. The Company had no unrecognized tax benefits or liabilities, and no adjustment to its financial position, results of operations, or cash flows relating to uncertain tax positions taken on all open tax years. The Company is no longer subject to federal, state or local income tax examinations by tax authorities for the years before 2011.

Net income (loss) per share - Basic net income (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options and warrants and non-vested shares of common stock. For the year ended December 31, 2014, the inclusion of common stock equivalents of 312,275 and 322,891, respectively, would be anti-dilutive. For the year ended December 31, 2013, the Company included 5,842 common stock equivalents as dilutive.

The reconciliation is as follows:

Years Ended December 31,	2014	2013
Weighted Average Number of Shares Outstanding	4,672,828	4,680,232
Effect of Dilutive Securities, common stock equivalents		5,842
	4,672,828	4,686,074

Weighted Average Number of Shares Outstanding, used for computing diluted earnings per share

Stock-based compensation - The Company accounts for stock-based compensation in accordance with ASC Topic 718, "Stock Compensation". Under the fair value recognition provisions of this topic, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the vesting period. Determining the fair value of share-based awards at the grant date requires assumptions and judgments about expected volatility and forfeiture rates, among other factors.

Advertising costs - Advertising costs are expensed as incurred and were approximately \$124,000 and \$153,000 for the years ended December 31, 2014 and 2013, respectively.

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SMARTPROS LTD.  
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Notes to Consolidated Financial Statements  
Years Ended December 31, 2014 and 2013

New accounting pronouncements -

In April 2014, The Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which updated the criteria for reporting discontinued operations included in Subtopic 205-20. The amendments in this update require an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively of the statement of financial position. The amendments also require additional disclosure about discontinued operations. The standard is effective for interim and annual periods beginning on or after December 15, 2014. At this time the update does not have a material impact on the Company's results and will be adopted for reporting on periods starting January 2015.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue From Contracts With Customers" that deals with Topic 606-Revenue From Contracts with Customers and added a new Subtopic 340-40 "Others Assets and Deferred Costs" to its Accounting Standards Codification (Codification). The purpose of these changes to the codification are to remove inconsistencies and weaknesses in revenue recognition, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practice across entities, provide more useful information to users of financial statements through increased disclosure and simplify the preparation of financial statements by reducing the number of requirements to which an entity may refer. These amendments are effective for years ending after December 15, 2016 and early application is not permitted. At this time the Company has not made an evaluation as to the effect these amendments will have on its financial statements. In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern. Disclosure of Uncertainties about Entity's ability to continue as a going concern." Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. This amendment now provides guidance by providing a definition of substantial doubt, requires evaluation by management every reporting period for going concern issues, provides principles for considering any mitigating effects implemented by management, and the disclosures required for the assessment period of one year after issuance of the financial statements. This update becomes effective for interim and annual reporting periods beginning after December 15, 2016 with early application being permitted. The update does not have a material impact on the Company's results and will be adopted for reporting periods starting January 2015.

2. Property and Equipment, net

The components of property and equipment are as follows:

December 31,	2014	2013
Furniture, Fixtures and Equipment	\$4,176,278	\$5,141,331
Leasehold Improvements	189,709	189,709
	4,365,987	5,331,040
Less Accumulated Depreciation	3,938,746	4,764,565
	\$427,241	\$566,475

Depreciation expense for the years ended December 31, 2014 and 2013 was approximately \$243,000 and 253,000, respectively.

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SMARTPROS LTD.  
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Notes to Consolidated Financial Statements  
Years Ended December 31, 2014 and 2013

3. Goodwill and Other Intangible  
Assets, net

The components of other intangible assets are as follows:

December 31,	2014	2013
Engineering Courses	\$2,766,837	\$2,766,837
Rights to CPA Report ("CPAR")	1,700,000	1,700,000
SmartPros Advantage Courses ("SPA")	837,504	837,504
Course Costs	1,625,107	1,512,124
Customer Lists	931,746	1,041,746
Restrictive Covenant	200,000	200,000
Trade Name (indefinite life)	350,000	350,000
Capitalized Software	3,980,347	3,470,143
Financial Campus	340,894	340,894
Other Intangible Assets	468,085	832,204
	13,200,520	13,051,452
Less Accumulated Amortization	9,904,562	9,535,041
	\$3,295,958	\$3,516,411

The aggregate amortization expense for the years ended December 31, 2014 and 2013 was approximately \$857,000 and \$879,000, respectively.

Estimated amortization expense for each of the five years subsequent to December 31, 2014 is as follows:

Year Ending December 31,	
2015	\$810,000
2016	\$679,000
2017	\$556,000
2018	\$410,000
2019	\$230,000

The following table presents the changes in the carrying amount of goodwill and other intangible assets during the years ended December 31, 2014 and 2013:

	Goodwill	Other Intangible Assets
Balance, January 1, 2013	\$2,807,257	\$3,530,744
Amortization Expense	—	(878,645 )
Goodwill and Intangible Assets Acquired and Developed	—	864,312
Balance, December 31, 2013	2,807,257	3,516,411
Amortization Expense	—	(857,325 )
Intangible Assets Acquired and Developed	—	673,186
Intangible Assets Written-Off	—	(36,314 )

Write-Off of Goodwill From Discontinued Operation	(350,783	) —
Balance, December 31, 2014	\$2,456,474	\$3,295,958

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SMARTPROS LTD.  
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Notes to Consolidated Financial Statements  
Years Ended December 31, 2014 and 2013

In conjunction with the sale of Skye's assets, the remaining goodwill of approximately \$351,000 was written-off. The Company also performed its annual evaluation of the remaining goodwill from the acquisition of Loscalzo and determined that there was no impairment.

#### 4. Income Taxes

At December 31, 2014 and 2013, the Company has a net deferred tax asset of \$200,000 and \$600,000, respectively, primarily resulting from the expected future benefit of available net operating loss carryforwards and other temporary differences. Realization of deferred tax assets depends on the Company's estimate of sufficient future taxable income during the period that deductible temporary differences and loss carryforwards are expected to be available to offset future taxable income. In determining the valuation allowance required at each reporting period, management considers all available evidence, both positive and negative, based on the weight of that evidence, including historical information that is supplemented by currently available information about future years. In weighing the available evidence, management uses the more likely than not threshold for recognition of a valuation allowance. Due to prior loss and other uncertainties about events that could adversely affect future projected taxable income, during fiscal 2014 the Company increased the valuation allowance relating to its deferred tax assets by \$400,000.

At December 31, 2014, the Company has net operating losses of approximately \$5.7 million, that expire at various dates through 2034.

The components of the provision for income taxes from continuing operations are as follows:

Years Ended December 31,	2014	2013
Current:		
Federal	\$—	\$—
State	(3,543	) (24,268
Total Current	(3,543	) (24,268
Deferred:		
Federal	(400,000	) —
State	—	—
Total Deferred	(400,000	) —
	\$(403,543	) \$(24,268

The temporary differences and net operating loss carryforward give rise to the following deferred tax assets:

December 31,	2014	2013
Net Operating Loss	\$2,200,000	\$1,440,000
Depreciation and Amortization of Property, Equipment and Intangibles	755,000	452,000
Stock Option and Restricted Stock Compensation Expense	145,000	268,000
Other	72,000	28,000
	3,172,000	2,188,000
Less Valuation Allowance	(2,972,000	) (1,588,000
Deferred Tax Asset	\$200,000	\$600,000

These amounts have been classified on the accompanying consolidated balance sheets as non-current.

A reconciliation of income tax expense at the federal statutory rate to income tax expense at the Company's effective rate is as follows:

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SMARTPROS LTD.  
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Notes to Consolidated Financial Statements  
Years Ended December 31, 2014 and 2013

Years Ended December 31,	2014	2013	
U.S. Federal Statutory Income Tax Rate	34	% 34	%
State Income Tax Rate, net of federal benefit	6	% 16	%
Travel and Entertainment	—	% 2	%
Prior Years' True-ups	16	% (27	)%
Change in Valuation Allowance	(85	)% (29	)%
Goodwill Impairment	—	% —	%
Other	4	% 20	%
Effective Income Tax Rate	(25	)% 16	%

### 5. Stock Incentive Plan

In June 2009 the Company adopted, with shareholder approval, its 2009 Incentive Compensation Plan (the "Plan"), replacing the expired 1999 Stock Option Plan. The Plan provides for the grant of up to 800,000 shares of non-qualified stock options and restricted stock awards to employees, directors and consultants. Future restricted stock grants may not exceed 200,000 shares. The Plan incorporated the outstanding shares at the time of adoption. As of December 31, 2014, there were 312,275 options outstanding, of which 245,775 are currently exercisable and there were 79,611 restricted stock grants outstanding. As of December 31, 2014, the Plan had a net balance of 366,934 shares reserved for the issuance of future grants. The Plan is administered by the Compensation Committee of the Board of Directors of the Company. The administrator of the Plan determines the terms of options, including the exercise price, expiration date, number of shares, and vesting provisions.

The weighted average estimated fair value of stock options granted for the year ended December 31, 2014 and 2013 was \$0.82 and \$0.35, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes Option Pricing Model. The Company takes into consideration guidance under ASC Topic 718, "Stock Compensation" when reviewing and updating assumptions. The expected volatility is based upon historical volatility of the Company's stock and other contributing factors. The expected term is based upon observation of the actual time elapsed between the date of grant and the exercise of options for all employees.

The assumptions made in calculating the fair values of options are as follows:

Years Ended December 31,	2014	2013
Contractual Term	10 years	10 years
Expected Volatility	40%	40%
Expected Dividend Yield	3.0%	2.0%-2.5%
Risk-Free Interest Rate	0.60%	2.3%-4.0%
Expected Term	5.0 Years	5.0 years

For the years ended December 31, 2014 and 2013, stock-based compensation expense related to stock options granted was approximately \$24,000 and \$31,000, respectively. As of December 31, 2014, the fair value of unamortized compensation cost related to non-vested stock option awards was approximately \$9,000. Unamortized compensation cost as of December 31, 2014 is expected to be recognized over a remaining weighted-average vesting period of 1.2 years.

As of December 31, 2014, the options had an intrinsic value of \$4,080. At December 31, 2013, the options had an intrinsic value of \$94,930.

In February 2013, the Company granted 35,000 options to various officers and employees, exercisable over 10 years from the date of grant at \$1.47 per share. Of these options, 20,000 vest three years from date of grant and 15,000 options vest one-half one year from date of grant and the remaining 7,500 options vest two years from date of grant.

In February 2013, the Company granted 41,500 shares of its restricted common stock to various executive officers, employees and members of its board of directors. The grant have various vesting periods between one and three years from date of grant

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SMARTPROS LTD.  
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Notes to Consolidated Financial Statements  
Years Ended December 31, 2014 and 2013

and the grant price was \$1.47 per share. Subsequent to the date of issuance 3,000 shares were forfeited and returned to the Plan.

In August 2013, the Company granted an employee 5,000 shares of its restricted stock from its Plan. The stock vests three years from date of issuance and the price of the stock at the date of grant was \$1.63.

In January 2014, the Company granted the president of Loscalzo, 10,000 options at a grant price of \$2.59. The options vest three years from date of grant and expire ten years from date of grant.

A summary of all stock option activity is as follows:

Years Ended December 31, 2014 and 2013	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2013	310,487	\$3.11
Options granted	35,000	\$1.47
Options forfeited/expired	(16,754)	) \$4.02
Outstanding, December 31, 2013	328,733	\$2.89
Options granted	10,000	\$2.59
Options forfeited/expired	(26,458)	) \$3.84
Outstanding, December 31, 2014	312,275	\$2.80
Exercisable, December 31, 2014	245,775	\$3.05

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)
\$0.01-\$1.99	148,000	6.97	\$1.85	91,500	6.75
\$2.00-\$2.99	73,250	4.51	\$2.58	63,250	3.80
\$3.00-\$3.99	34,150	1.96	\$3.35	34,150	1.96
\$4.00-\$4.99	10,150	0.33	\$4.00	10,150	0.33
\$5.00-\$5.99	46,725	2.92	\$5.48	46,725	2.92
	312,275			245,775	

A summary of the non-vested options and activity for the year ended December 31, 2014 is as follows:

	Options	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2014	93,000	1.78
Granted	10,000	2.59
Vested	(36,500)	) 1.86
Forfeited	—	—

Non-vested, December 31, 2014

66,500

1.86

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SMARTPROS LTD.  
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## 6. Stockholders' Equity

In 2014 and 2013 the Company purchased 86,116 and 73,473 shares of its common stock for \$161,093 and \$116,107, respectively.

In February 2013, the Company granted certain employees and members of its board of directors 41,500 restricted shares of its common stock from its 2009 Plan. The stock price at date of the grant was \$1.47 of which 9,000 shares vested on February 1, 2014 and 2015 each, and 23,500 shares vest on February 1, 2016. Subsequent to the date of issuance 3,000 shares were forfeited and returned to the Plan. In August 2013, the Company granted an employee 5,000 restricted shares of its common stock. The stock vests three years from date of grant. The stock price at date of grant was \$1.63.

## 7. Discontinued Operations

As part of the Company's strategy to focus its resources on business activities that are high margin and require less development costs, the Company decided to exit its customized education business.

On January 12, 2015, the Company completed the sale of substantially all of the assets of its Skye subsidiary and Skye's fifty per-cent interest in iReflect, LLC to the former president of Skye for \$8,708, plus an earn-out of 50% of the Earnings Before Interest and Taxes (EBIT), (not to exceed \$500,000) for the 36 month period commencing January 1, 2015. The assets sold included customer contracts, equipment, supplier lists and intellectual property. The Company retained the working capital related to the Skye operation, and the sale of the business was effective as of December 31, 2014.

The operating results of the discontinued operation are summarized below:

Years Ended December 31,	2014		2013
Net Revenues	\$1,282,567		\$1,567,921
(Loss) Income Before Income Taxes	(229,604	)	108,441
Provision for Income Taxes	—		2,675
(Loss) Income From Operations of Discontinued Operations	(229,604	)	105,766
(Loss) on Sale of Discontinued Operations	(540,661	)	—
(Loss) Income From Discontinued Operations	\$(770,265	)	\$105,766

The net assets of the discontinued operation at December 31, 2014, were approximately \$299,000 and consisted of the following:

Accounts Receivable, net	\$414,000
Other Assets	5,000
Total Assets	\$419,000

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Accounts Payable and Accrued Expenses	\$ 120,000
Total Liabilities	120,000
Net Assets	\$ 299,000

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## 8. Commitments and Contingencies

Operating leases- The Company leases office space, production and warehouse facilities in Hawthorne, New York and office space in Shrewsbury, New Jersey. Future minimum lease payments are as follows:

Year Ending December 31,	
2015	\$ 387,000
2016	389,000
2017	357,000
2018	357,000
Thereafter	30,000
	\$ 1,520,000

Rent expense is recorded on a straight-line basis over the lease term. Rent expense from continuing operations for the years ended December 31, 2014 and 2013 was approximately \$363,000 and \$373,000 respectively.

The Company arranged for a \$75,000 letter of credit representing a security deposit for the Hawthorne, New York lease. The Company has pledged a \$75,000 certificate of deposit to the bank, issuing the letter of credit as collateral for the letter of credit and the restricted cash account is included in other assets.

Employment agreements- The Company has entered into employment agreements with its key senior executives.

The employment agreement with the Company's chief executive officer was renewed in February 2007, and was for an initial term of three years. The agreement renews automatically for a new three-year term at the end of the first year of each three-year term, unless either party gives at least thirty days notice of their intent not to renew before the end of the first year of each three-year term. The contract currently expires on February 1, 2017.

• The chief financial officer's agreement was renewed in June 2013 and expires in June 2015.

• The president's employment agreement was renewed on October 1, 2014 for a period of three years.

• The chief technology officer's agreement was renewed on March 1, 2014 for a period of two years.

Each employment agreement provides for specified annual base salaries, subject to increases at the discretion of the Company's board of directors. Under certain agreements, if the Company terminates any executive's employment without cause, or if an executive terminates his employment for good reason, the executive is entitled to receive certain severance benefits. Each of the president's, chief financial and technology officers' contracts renew automatically for an additional two-year period unless notice is given prior to the expiration of the respective contract.

The aggregate commitments under the current employment agreements as of December 31, 2014, exclusive of any renewals for the senior executives described above approximated \$887,000, \$648,000 and \$227,000 payable in 2015, 2016 and 2017 respectively.

Litigation - From time to time, the Company may be involved in litigation through the normal course of business. Currently, there is no pending litigation, other than in the normal course of business.

## 9. Subsequent Events

In March 2015, the Company's board of directors approved a dividend of \$0.015 per common share to shareholders as of March 20, 2015, payable on April 7, 2015.

The Company's board granted the chief executive officer 10,000 shares of restricted common stock from its 2009 Plan. The shares vest on December 1, 2015 and the market value of the stock at the date of grant was \$1.34 per share. In addition, the

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chief executive officer surrendered a stock option of 10,000 shares that were fully vested and were to expire on September 23, 2017.

The Company's board also granted certain executive officers 45,000 options from its 2009 Plan. These options vest three years from date of issuance, expire ten years from date of issuance and had an exercise price on the date of issuance of \$1.34 per share, and a fair value of \$.32 per share.

The Company has examined all other subsequent events through the date of this report.

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