

SmartPros Ltd.
Form 10-Q
May 06, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2014
Commission File Number 001-32300
SMARTPROS LTD.
(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

13-4100476
(I.R.S. Employer
Identification No.)

12 Skyline Drive, Hawthorne, New York 10532

(Address of principal executive office)

(914) 345-2620
(Issuer's telephone number, including area code)

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 issuer 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 Web site, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer
Non-accelerated filer 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

Number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 6, 2014, there were 4,684,441 shares of common stock outstanding.

SMARTPROS LTD.
FORM 10-Q REPORT
March 31, 2014
TABLE OF CONTENTS

	PAGE
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements (Unaudited)</u>	
Balance Sheets- March 31, 2014 and December 31, 2013 (Audited)	<u>4</u>
<u>Statements of Operations for the three month periods ended March 31, 2014 and 2013</u>	<u>5</u>
<u>Statements of Cash Flows for the three month periods ended March 31, 2014 and 2013</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>10</u>
Item 3. <u>Quantitative and Qualitative Risk Disclosures About Market Risk</u>	<u>17</u>
Item 4. <u>Controls and Procedures</u>	<u>17</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>18</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>18</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>18</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>18</u>
Item 5. <u>Other Information</u>	<u>18</u>
Item 6. <u>Exhibits</u>	<u>18</u>
<u>SIGNATURES</u>	<u>20</u>

FORWARD-LOOKING STATEMENTS

Some of the statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” within the meaning of Section 21E of the Securities and Exchange Act of 1934. These statements relate to our plans and objectives for future operations as well as to market trends and expectations. These 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 expressed or implied future results, performance or achievements. The forward-looking statements included in this report are based on current expectations, plans and assumptions relating to the future operation of our business. These expectations, plans and assumptions 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 expectations, plans and assumptions underlying the forward-looking statements are reasonable, we cannot assure you that the forward-looking statements included in this report will, ultimately, prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included in this report, the fact that we have included forward-looking statements in this report should not be interpreted as a representation by us or any other person that our objectives and plans will be achieved. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

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, 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
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SMARTPROS LTD. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$4,259,862	\$5,303,657
Accounts receivable, net of allowance for doubtful accounts of approximately \$20,000 at March 31, 2014 and December 31, 2013, respectively	1,909,738	2,430,495
Prepaid expenses and other current assets	510,358	340,463
Current income tax benefit	250,000	—
Total Current Assets	6,929,958	8,074,615
Property and equipment, net	543,917	566,475
Goodwill	2,807,257	2,807,257
Other intangibles, net	3,649,092	3,516,411
Other assets, including restricted cash of \$75,000	104,165	104,515
Deferred tax asset	600,000	600,000
Investment in joint venture	1,893	2,268
	7,706,324	7,596,926
Total Assets	\$14,636,282	\$15,671,541
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$681,933	\$1,203,222
Accrued expenses	149,501	234,863
Dividend payable	70,267	70,289
Deferred revenue	4,404,535	4,395,166
Total Current Liabilities	5,306,236	5,903,540
Other liabilities	69,310	70,378
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$.001 par value, authorized 1,000,000 shares, 0 shares issued and outstanding	—	—
Common stock, \$.0001 par value, authorized 30,000,000 shares, 5,665,433 shares issued as of March 31, 2014 and December 31, 2013, respectively; and 4,684,441 shares outstanding as of March 31, 2014 and December 31, 2013, respectively	567	567
Additional paid-in capital	17,164,082	17,217,008
Accumulated deficit	(5,218,181)	(4,834,220)
Common stock in treasury, at cost – 980,992 shares at March 31, 2014 and December 31, 2013 respectively	(2,685,732)	(2,685,732)
Total Stockholders' Equity	9,260,736	9,697,623
Total Liabilities and Stockholders' Equity	\$14,636,282	\$15,671,541

See Notes to Condensed Consolidated Financial Statements (Unaudited)

SMARTPROS LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of
Operations (Unaudited)

	Three Months Ended	
	March 31,	
	2014	2013
Net revenues	\$2,988,003	\$3,218,667
Cost of revenues	1,545,668	1,427,454
Gross profit	1,442,335	1,791,213
Operating Expenses:		
Selling, general and administrative	1,821,953	2,101,027
Depreciation and amortization	256,760	268,513
	2,078,713	2,369,540
Operating (loss)	(636,378) (578,327
Other Income (Expense):		
Interest income (net)	6,573	6,495
Equity loss from joint venture	(375) (3,247
	6,198	3,248
(Loss) before income taxes	(630,180) (575,079
Benefit from income taxes	246,219	218,597
Net (loss)	\$(383,961) \$(356,482
Net (loss) per common share:		
Basic net (loss) per common share	\$	