SmartPros Ltd.
Form SB-2
May 13, 2004

As filed with the Securities and Exchange Commission on May 13, 2004

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SMARTPROS LTD.

(Exact name of Registrant as specified in its charter)

Delaware	**8299**	**13-4100476**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

12 Skyline Drive
Hawthorne, New York 10532
(914) 345-2620
(914) 345-2603 Facsimile

(Address, including zip code, and telephone number, including area code, of Registrant s executive offices)

Allen S. Greene
Chief Executive Officer
SmartPros Ltd.
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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective. [X]

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Unit/Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee
Units, consisting of two shares of common stock, $.001 par value, and one warrant to purchase one share of common stock	1,035,000	$ 10.50	$10,867,500	$1,376.91
Common stock included in the units	2,070,000			
Warrants to purchase common stock included in the units	1,035,000			
Common stock underlying the warrants included in the units (3)	1,035,000	$ 7.875	$ 8,150,625	$1,032.68
Representative s warrants	90,000			(4)
Units issuable upon exercise of the representative s warrants	90,000	$ 12.60	$ 1,134,000	$ 143.68

Common shares included in the units underlying the representative s warrants (3)	180,000			
Warrants to purchase common stock included in units issuable upon exercise of the representative s warrants	90,000			
Common stock underlying the warrants to purchase common stock included in units issuable upon exercise of the representative s warrants (3)	90,000	$ 7.875	$ 708,750	$ 89.80
Total	5,715,000		$20,860,875	$2,643.07

(1) Includes 135,000 units issuable upon exercise of underwriters over-allotment option.

(2) Estimated solely for purposes of calculating the amount of the registration fee paid pursuant to Rule 457(g) under the Securities Act.

(3) Pursuant to Rule 416 under the Securities Act, there are also being registered hereby such additional indeterminate number of shares as may become issuable pursuant to the antidilution provisions of the warrants.

(4) No registration fee required pursuant to Rule 457 of the Securities Act.

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

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

PROSPECTUS (Subject to Completion)

Dated May 13, 2004

900,000 Units

each consisting of two shares and one warrant

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

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

We are applying to the American Stock Exchange to list the units, common stock and warrants under the symbols PRO.u, PRO and PRO.ws, respectively.

Investing in these units involves significant risks. See Risk Factors beginning on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of the disclosures in this prospectus. Any representation to the contrary is a criminal offense.

	Per Unit	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us, before expenses	$	$

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

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

PAULSON INVESTMENT COMPANY, INC.

The date of this Prospectus is _________, 2004

We own the following registered and unregistered trademarks: SmartPros®, SmartPros® Professional Education Center (PEC), PEC, Financial Management Network, SmartPros® Advantage (SPA), AICPA Practice Report (APR), AICPA Practice Pro, The CPA Report Government & Not-for-Profit (CPAR Gov/NFP), The CPA Report and Design, CPAR, AICPA Financial Pro, Integrity Alignment Process, Integrity Training Center, Working Values® and KeepSmart. We have also used trademarks, tradenames and service marks owned by others in this prospectus.

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

PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus and does not contain all of the information that is important to you. For a more complete understanding of this offering, we encourage you to read this entire prospectus, including our financial statements and the notes to those statements. Unless indicated to the contrary, all information in this prospectus has been retroactively adjusted to reflect the conversion of all of the outstanding shares of our Series A Convertible Preferred Stock into shares of common stock and a reverse stock split effective on _________, 2004 in which each outstanding share of our common stock was converted into 0.5169925 shares of common stock.

SmartPros

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

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

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

Although we have recorded net losses in each of the last four fiscal years and have cumulative losses in excess of $10 million, over the last three years our financial condition has improved markedly. We have reduced our operating costs and our debt load and substantially reduced our stockholders deficit. Most importantly, we were EBITDA positive in both 2002 and 2003.

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

Corporate Information

Our principal executive office is located at 12 Skyline Drive, Hawthorne, New York 10532 and our telephone number is (914) 345-2620. Our primary web address is www.smartpros.com. Our subsidiary Working Values has its own website at www.workingvalues.com. Our educational content is delivered through our proprietary learning content management system at education.smartpros.com. None of the information on our websites is part of this prospectus.

The Offering

Securities offered	900,000 units, each unit consisting of two shares of common stock and one redeemable common stock purchase warrant. Initially, only the units will trade. The common stock and the warrants included in the units will not trade separately until the tenth business day following the date on which the representative notifies us and the American Stock Exchange that they will begin trading separately. Separate trading in the common stock and the warrants may not commence any earlier than the 31st day following the effective date of this offering or later than the 45th day following the effective date of this offering. Once separate trading in the common stock and warrants commences, the units will cease trading and will be delisted. When we receive notice from the representative, we will issue a press release announcing the date on which the common stock and warrants will begin separate trading.
Shares of common stock to be outstanding after this offering	5,050,000

Warrants: Number to be outstanding after this offering925,000 Exercise termsEach warrant entitles its holder to purchase one share of common stock at an exercise price equal to 75% of the initial unit offering price. The warrants are exercisable at any time after they become separately tradable. Expiration date__________, 2009 RedemptionWe may redeem some or all of the warrants, at any time beginning six months after the effective date of this offering, at a price of $0.25 per warrant, on 30 days notice to the holders. However, we may only redeem the warrants if the closing price for our common stock, as reported on the principal exchange on which our common stock trades, for any five consecutive trading days has equaled or exceeded 100% of the initial unit offering price. Proposed AMEX symbolsUnits PRO.u Common stockPRO WarrantsPRO.ws Risk factorsPlease refer to Risk Factors for a description of the risk factors you should consider.
Shares and warrants outstanding after this offering takes into account the 25,000 units that we will issue to our attorneys on the date of this offering for legal services rendered in connection with this offering.

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

- the warrants;
- the over-allotment option to purchase up to 135,000 units;
- warrants to purchase 90,000 units granted to the representative in connection with this offering;
- warrants and options outstanding immediately before this offering covering 378,220 shares of common stock.

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Summary Financial Information

	Years Ended December 31,	
	2002	**2003**
	(in thousands, except share and per share data)	
Statement of operations data:		
Net revenues	$ 7,849	$ 8,580
Gross profit	$ 4,205	$ 5,096
Operating expenses	$ 4,907	$ 5,339
Operating (loss)	$ (702)	$ (243)
Net (loss)	$ (797)	$ (315)
Basic and diluted (loss) per common share	$ (0.25)	$ (0.10)
Basic and diluted weighted average common shares outstanding	3,156,929	3,223,700
Other data:		
Net (loss)	$ (797)	$ (315)
Interest expense, net	$ 95	$ 72
Depreciation and amortization	$ 717	$ 676
Earnings before interest, taxes and depreciation	$ 15	$ 433

The table below sets forth a summary of our balance sheet data as of December 31, 2003 on an actual basis and as adjusted for this offering taking into account the receipt of approximately $7.4 million of estimated net proceeds from this offering and the use of those proceeds to repay outstanding indebtedness.

	December 31, 2003 (in thousands)	
Balance sheet data:	**Actual**	**As adjusted**
		(unaudited)

Current assets	$ 1,338	$ 7,995
Working capital (deficit)	$(3,578)	$ 3,421
Total assets	$ 5,182	$11,839
Total liabilities	$ 5,555	$ 4,812
Stockholders equity (deficit)	$ (373)	$ 7,027

RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus, including our financial statements and the notes to those statements, before you purchase any units.

Risks Related to Our Business

We have not recorded an operating profit since 1999. Continuing losses may exhaust our capital resources and force us to discontinue operations.

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

We have a significant working capital deficit, which has made it more difficult for us to obtain the capital we need to grow our business. This has adversely impacted our ability to increase our revenues.

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

The industry in which we operate is highly competitive and has relatively low barriers to entry. Increased competition could result in margin erosion, which would make profitability even more difficult to achieve and sustain.

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

If we fail to keep up with changes affecting the markets that we serve, we will become less competitive, adversely affecting our financial performance.

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

Our future success depends on retaining our existing key employees and hiring and assimilating new key employees. The loss of key employees or the inability to attract new key employees could limit our ability to execute our growth strategy, resulting in lost sales and a slower rate of growth.

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

Our sales cycle can be long and unpredictable, delaying our growth.

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

Our growth strategy assumes that we will make targeted strategic acquisitions. Acquisitions may disrupt our business, dilute shareholder value or distract management s attention from operations.

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

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

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

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

Even after this offering is completed, we may need additional capital for expansion purposes. The availability of capital and the terms on which it will be available are uncertain.

We may need to raise additional funds to take advantage of expansion or acquisition opportunities in the future. Other than this offering, we have no arrangements or commitments for additional financings. If we cannot expand or make acquisitions that we believe are necessary to maintain our competitive position, we may not be able to maintain a reasonable growth rate. If we raise additional capital by selling equity or equity-linked securities, these securities would dilute the ownership percentage of our existing stockholders. Also, these securities could also have rights, preferences or privileges senior to those of our common stock. Similarly, if we raise additional capital by issuing debt securities, those securities may contain covenants that restrict us in terms of how we operate our business, which could also affect the value of our common stock. We may not be able to raise capital on reasonable terms or at all.

Our strategic relationships are usually short-term, nonexclusive arrangements and our strategic partners may provide the same or similar services to our competitors, diluting any competitive advantage we get from these relationships.

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

We may be unable to protect our intellectual property adequately or cost effectively, which may cause us to lose market share or reduce our prices.

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

Our intellectual property may infringe on the rights of others, resulting in costly litigation.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. In particular, there has been an increase in the filing of suits alleging infringement of intellectual property rights, which pressure defendants into entering settlement arrangements quickly to dispose of such suits, regardless of their merits. Other companies or individuals may allege that we infringe on their intellectual property rights. Litigation, particularly in the area of intellectual property rights, is costly and the outcome is inherently uncertain. In the event of an adverse result, we could be liable for substantial damages and we may be forced to discontinue our use of the subject matter in question or obtain a license to use those rights or develop non-infringing alternatives. Any of these results would increase our cash expenditures, adversely affecting our financial condition.

We may not be able to manage our growth effectively, which could adversely affect our operations and financial performance.

The ability to manage and operate our business as we execute our growth strategy will require effective planning. Significant rapid growth could strain our internal resources, leading to a lower quality of customer service, reporting problems and delays in meeting important deadlines resulting in loss of market share and other problems that could adversely affect our financial performance. Our efforts to grow have placed, and we expect will continue to place, a significant strain on our personnel, management systems, infrastructure and other resources. Our ability to manage future growth effectively will also require us to successfully attract, train, motivate, retain and manage new employees and continue to update and improve our operational, financial and management controls and procedures. If we do not manage our growth effectively, our operations could be adversely affected, resulting in slower growth and a failure to achieve or sustain profitability.

Risks Related to this Offering

We are controlled by a limited number of stockholders.

Immediately after this offering, our executive officers will, in the aggregate, own 24.2% of the issued and outstanding shares of our common stock, or 23.1% if the over-allotment option is exercised in full. As a result, these stockholders will have the ability to exercise substantial control over our affairs and corporate actions requiring stockholder approval, including electing and removing directors, selling all or substantially all of our assets, merging with another entity or amending our certificate of incorporation. This de facto control could be disadvantageous to our other stockholders with interests that differ from those of the control group. For example, the control group could delay, deter or prevent a change in control even if a transaction of that sort would benefit the other stockholders. In addition, concentration of ownership could adversely affect the price that investors might be willing to pay in the future for our securities.

Being a public company will increase our administrative costs, which could result in lower net income, and make it more difficult for us to attract and retain key personnel.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission, or SEC, has required changes in corporate governance practices of public companies. In addition to final rules and rule proposals already made by the SEC, the American Stock Exchange revised its requirements for listed companies. We expect that these new rules and regulations will increase our legal and financial compliance costs and make some activities more time consuming. For example, in connection with becoming a public company, we will create several board committees, implement additional internal controls and disclose controls and procedures, retain a transfer agent, a bank note company, and a financial printer, adopt an insider trading policy and incur costs relating to preparing and distributing periodic public reports in compliance with our obligations under the securities laws. These new rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

Our common stock has no prior market. If an active market does not develop, you may be unable to sell your shares.

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

We do not anticipate paying dividends in the foreseeable future. This could make our stock less attractive to potential investors.

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

If we do not maintain an effective registration statement or comply with applicable state securities laws, you may not be able to exercise the warrants.

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

The warrants may be redeemed on short notice. This may have an adverse impact on their price.

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

Future sales or the potential for sale of a substantial number of shares of our common stock could cause the trading price of our common stock and unit warrants to decline and could impair our ability to raise capital through subsequent equity offerings.

Sales of a substantial number of shares of our common stock in the public markets, or the perception that these sales may occur, could cause the market price of our stock to decline and could materially impair our ability to raise capital through the sale of additional equity securities. Once this offering is completed, in addition to the 5,050,000 shares of common stock actually issued and outstanding, there will be another 2,492,403 shares of common stock reserved for future issuance as follows:

- 925,000 shares underlying the warrants, including the warrants underlying the units we will issue to our attorneys in connection with this offering;
- 405,000 shares underlying the over-allotment option, including the shares underlying the warrants included in the units underlying that option;
- 270,000 shares underlying the representative s warrants, including the shares underlying the unit warrants includable in the representative s warrants;
- 882,319 shares reserved for issuance under our 1999 stock option plan; and
- 10,084 shares issuable upon exercise of warrants outstanding on the date of this prospectus.

The common stock included in the units as well as the common stock underlying the warrants, other than those shares held by affiliates, as defined by the rules and regulations promulgated under the Securities Act of 1933, will be freely tradable without restriction. Before this offering, we had 3,200,000 shares of common stock outstanding, all of which are restricted securities as defined in Rule 144 promulgated under the Securities Act of 1933. Of these shares, 1,045,082 are held by affiliates, and can only be sold in compliance with the timing and volume limitations of Rule 144 promulgated under the Securities Act of 1933. The other 2,154,918 restricted shares may be sold without limitation under Rule 144(k). Stockholders owning ____ shares of our common stock, including our executive officers and directors, have agreed not to sell any shares of stock for a period of one year after this offering without the consent of the representative of the underwriters. The representative may waive that restriction in its sole discretion.

The existence of outstanding options and warrants may impair our ability to obtain additional equity financing.

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

Management has broad discretion over the use of proceeds from this offering. We may use the proceeds of this offering in ways that do not improve our operating results or the market value of our securities.

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

It may be difficult for a third party to acquire us, and this could depress our stock price.

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

- Without prior stockholder approval, the board of directors has the authority to issue one or more classes of preferred stock with rights senior to those of common stock and to determine the rights, privileges and inference of that preferred stock.
- There is no cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates.
- Stockholders cannot call a special meeting of stockholders.
- Our bylaws establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.
- Our board of directors is divided into three classes, which makes it significantly more difficult for someone to gain control in a contested proxy fight.

FORWARD-LOOKING STATEMENTS

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

USE OF PROCEEDS

The principal purpose of this offering is to raise capital to allow us to acquire and develop new content and to respond quickly to new competitive and business developments. Assuming a public offering price of $10.00 per unit and after deducting the estimated underwriting discount of $810,000, a non-accountable expense allowance of $270,000 and estimated offering expenses of $520,000, we estimate that the net proceeds to us from this offering will be approximately $7.4 million, or $8.6 million if the representative exercises the over-allotment option in full. We expect to use the net proceeds as follows:

Use of Proceeds	Approximate Amount	Approximate Percentage
Repayment of debt	$ 623,000	8.4%
Development of new content	500,000	6.8
Capital expenditures	100,000	1.3
Working capital	6,177,000	83.5
Total	$7,400,000	100.0%

Repayment of debt. This amount includes the outstanding principal balance of all short-term and long-term indebtedness evidenced by notes, debentures and other debt instruments as of April 30, 2004. Included in this amount is a note for $52,000 that we are obligated to repay out of the proceeds of this offering. It does not include the repayment of any capital lease obligations.

Development of new content. This is the amount we anticipate spending to internally develop new content, primarily for our engineering and Working Values libraries.

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

Working capital. The majority of the net proceeds of this offering may be used to acquire new content and complementary businesses. Currently, we have no agreements or commitments to make any acquisitions. We may also use a portion of the proceeds allocated to working capital for general corporate purposes, overhead and to reduce our accounts payable and accrued expenses. We may also use a portion of these proceeds to hire additional sales and marketing personnel if we deem that to be necessary. If the representative exercises the over-allotment option, the additional net proceeds, approximately $1.2 million, will be added to working capital.

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

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

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

DIVIDEND POLICY

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

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2003 on an actual basis (after giving retroactive effect to the reverse stock split and the conversion of the Series A Convertible Preferred Stock that will be implemented before the date of this offering) and as adjusted for this offering, taking into account the receipt of $7.4 million of estimated net proceeds from this offering and the 25,000 units that we will issue to our attorneys upon the completion of this offering and the application of those proceeds to repay debt.

	December 31, 2003	
	Actual	**As adjusted**
	(in thousands)	
Debt:		
Notes and other indebtedness	$743	$ 0
Capital lease obligations	167	167
Total debt	$910	$167
Stockholders equity (deficit):		
Preferred stock, $.001 par value, 1,000,000 shares authorized, no shares issued and outstanding	$	$
Common stock, $0.0001 par value, 30,000,000 shares authorized; 3,258,006 shares issued and 3,200,000 shares outstanding actual; and 5,108,006 shares issued and 5,050,000 shares outstanding as adjusted	1	1
Common stock in treasury, at cost-58,007 shares	(220)	(220)
Additional paid-in capital	10,213	17,613
Accumulated (deficit)	(10,167)	(10,167)
	$(173)	$7,227
Note receivable from stockholder	(200)	(200)
Total stockholders equity (deficit)	$ (373)	$ 7,027
Total capitalization	$ 537	$ 7,194

DILUTION

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

At December 31, 2003, we had a negative net tangible book value of approximately $3.1 million, or approximately $0.97 per share. After giving effect to the sale of the units in this offering at the assumed initial public offering price of $10.00 per unit and taking into account the 25,000 units we will issue to our attorneys upon completion of this offering, our net tangible book value of December 31, 2003 would have been approximately $4.3 million, or $0.85 per share. This represents an immediate increase of $1.82 per share to existing stockholders and immediate dilution of $4.15 per share to the new investors who purchase units in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$5.00
Pro forma net tangible book value per share at December 31, 2003	$(0.97)	
Increase in pro forma net tangible book value per share attributable to new investors	1.82	
Net tangible book value per share after the offering		0.85
Dilution per share to new investors		$4.15

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

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	3,200,000	64.0%	$10,213,000	53.2%	$3.19
New investors	1,800,000	36.0%	9,000,000	46.8%	$5.00
Total	5,000,000	100.0%	$19,214,000	100.0%	

The table set forth above does not take into account the shares of common stock underlying the units that we will issue to our attorneys in connection with this offering, which will be accounted for as a cost of this offering.

If the representative exercises the over-allotment option in full, the new investors will purchase 2,070,000 shares of common stock. In that event, the gross proceeds from this offering will be $10,350,000, representing approximately 50.3% of the total consideration for 39.3% of the total number of shares of common stock outstanding, and the dilution to new investors would be $3.97 per share.

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

SELECTED CONSOLIDATED FINANCIAL DATA

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

Statement of operations data:

	Years Ended December 31,	
	2002	2003
	(in thousands, except share and per share data)	
Net revenues	$ 7,849	$ 8,580
Cost of revenues	3,644	3,484
Gross profit	4,205	5,096
Selling, general and administrative	4,190	4,663
Depreciation and amortization	717	676
Total operating expenses	4,907	5,338
Operating (loss)	(702)	(243)
Other income (expense), net	(95)	(72)
Net (loss)	$ (797)	$ (315)
Basic and diluted (loss) per common share	$ (0.25)	$ (0.10)
Basic and diluted weighted average common shares outstanding	3,156,929	3,223,700

Balance sheet data:

	December 31, 2003 (in thousands)
Current assets	$ 1,338
Working capital (deficit)	$(3,578)
Total assets	$ 5,182
Total liabilities	$ 5,555
Stockholders equity (deficit)	$ (373)

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

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

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

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

Since 2001, we have successfully completed two key acquisitions. These acquisitions enabled us to realize the benefit of over $30 million of invested capital for approximately $1.1 million in cash, stock (based on the value at the time of the acquisition) and assumption of liabilities. First, in May 2001, we acquired substantially all of the assets of Pro2Net. In so doing, we acquired a library of how to programs and a functional learning content management system that we could market with our programs. As a result, we terminated a contract with a third party to develop a learning content management system, saving us approximately $2 million in development costs. Our ability to provide the value-added services represented by the learning management system is, we believe, key to our recent revenue growth and future success.

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

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

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

typically provide for a significant upfront payment and a series of payments based on deliverables specifically identified in the contract.

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

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

- The increasing recognition by professionals and corporations that they must continually improve their skills and those of their employees in order to remain competitive.
- The plethora of new laws and regulations affecting the conduct of business and the relationship between a corporation and its employees.
- The increased competition in today s economy for skilled employees and the recognition that effective training can be used to recruit and train employees.
- The development and acceptance of the Internet as a delivery channel for the types of products and services we offer.

Critical accounting policies and estimates

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

Revenues

Revenues in the form of fees for services are generally recognized on the basis of proportional performance. Our projects generally do not take more than a few months to complete. Revenue derived from tape duplication and related services are generally recognized when the tapes are shipped or, if later, when our obligations have been completed in full and realization of the receivable is reasonably assured.

Equipment and leasehold improvements

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

Impairment of long-lived assets

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

Stock-based compensation

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

Results of operations

In general, we saw a substantial improvement in our operating performance in 2003 compared to 2002. Revenues and gross margin both increased and our operating expenses decreased. As a result, loss from operations decreased by more than 65% and our net loss decreased by more than 60%. The following table sets forth, for the periods presented, a comparison of statement of operations data in absolute terms and as a percentage of revenues and indicates. The trends suggested by this table may not be indicative of future operating results. As

noted earlier, these percentages can be expected to change substantially as a result of our implementation of different sales models and other factors.

	Years Ended December 31, (all dollar amounts are in thousands)				
	2002		2003		
	Amount	As a Percentage of Revenue	Amount	As a Percentage of Revenue	Increase/ (Decrease)
Net revenues	$7,849	100.0%	$8,580	100.0%	9.3%
Cost of revenues	3,644	46.4	3,484	40.0	(0.4)
Gross profit	4,205	53.6	5,096	60.0	21.2
Selling, general and administrative	4,191	53.4	4,663	54.3	60.4

Depreciation and amortization	717	9.1	676	8.4	(5.7)
Total operating expenses	4,907	62.5	5,338	62.7	8.8
Operating (loss)	(702)	(8.9)	(243)	(2.7)	(65.4)
Other (expense), net	(95)	(1.2)	(72)	(0.8)	(24.2)
Net (loss)	$ (797)	(10.1)	$ (315)	(3.5)	(63.4)

Net revenues

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

Sales of our accounting/finance products have been growing in absolute terms and as a percentage of total revenues, offsetting any declines in our other products. In 2003, revenues from our accounting/finance products were $6.2 million compared to $4.9 million in 2003. The increase in accounting/finance revenues reflects the 10% price increase for subscriptions and for direct sales that we imposed in 2003. This increase was on top of a 10% price increase in 2002 for selected products. The fact that we were able to raise our rates with little or no market resistance, we believe also reflects the fact that our customers appreciate the quality of our offerings. Subscription sales of accounting/finance products were approximately $5.5 million and direct sales of course material on a non-subscription basis were approximately $250,000. The balance was $407,000 consisting of custom work and advertising revenues.

Revenues from our engineering products declined from $453,000 in 2002 to $381,000 in 2003. This decline in revenue is attributable to a reduction in sales to federal and state transportation and highway agencies of our Professional Engineering (PE) exam review course. These agencies purchase this course for their staff engineers. However, in 2003 the U.S. Department of Transportation failed to secure approval for a new budget. Since a portion of the budget is allocated to the various state departments of transportation, these agencies eliminated our product fro