VIRTUAL ACADEMICS COM INC
Form 10QSB
November 13, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-QSB

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

For the fiscal quarter ended: September 30, 2001
Commission file number: 033-25900

VIRTUAL ACADEMICS.COM, INC.
(Exact name of registrant as specified in its charter)

Delaware	75-2228820
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6421 Congress Avenue, Suite 201
Boca Raton, Florida 33432
(Address of principal executive offices)
(Zip code)

(561) 994-4446
(Registrant's telephone number, including area code)

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

Yes x No

APPLICABLE TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practical date:

On November 1, 2001, the issuer had outstanding 8,604,617 shares of common stock, $.001 par value per share.

VIRTUAL ACADEMICS.COM, INC. AND SUBSIDIARIES
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VIRTUAL ACADEMICS.COM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2001	June 30, 2001

	(Unaudited)	
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 1,675,322	$ 1,775,206
Tuition Receivable (Net of Allowance for Doubtful Accounts of $223,553 and $193,000, respectively)	2,026,080	2,119,182
Prepaid Recruiting Fees	136,840	145,018
Other Current Assets	123,319	25,830
Total Current Assets	3,961,561	4,065,236
PROPERTY AND EQUIPMENT:		
Computer Equipment and Software	90,147	69,274
Furniture, Fixtures and Office Equipment	46,933	46,932
Leasehold Improvements	3,051	3,051
	140,131	119,257
Less: Accumulated Depreciation	(39,384)	(32,647)
Total Property and Equipment	100,747	86,610
OTHER ASSETS:		
Tuition Receivable (Net of Allowance for Doubtful Accounts of $193,050 and $172,000, respectively)	707,098	379,921
Prepaid Recruiting Fees	27,911	16,511
Deferred Tax Asset	101,995	114,681
Security Deposits	7,942	7,941
Total Other Assets	844,946	519,054
Total Assets	$ 4,907,254	$ 4,670,900

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts Payable	$ 56,560	$ 15,392
Unearned Revenues	3,009,371	2,914,678
Accrued Recruiting Fees	108,197	89,318
Other Accrued Expenses	138,468	137,874
Total Current Liabilities	3,312,596	3,157,262
NON-CURRENT LIABILITIES:		
Unearned Revenues	393,555	336,919
Accrued Recruiting Fees	22,069	19,286
Total Non-Current Liabilities	415,624	356,205
Total Liabilities	3,728,220	3,513,467
STOCKHOLDERS' EQUITY:		
Preferred Stock ($.001 Par Value; 1,000,000 Shares Authorized; No Shares Issued and Outstanding)	-	-
Common Stock ($.001 Par Value; 10,000,000 Shares Authorized; 8,604,617 Shares Issued and Outstanding)	8,604	8,604

Additional Paid-in Capital	1,346,944	1,346,944
Accumulated Deficit	(176,514)	(198,115)
Total Stockholders' Equity	1,179,034	1,157,433
Total Liabilities and Stockholders' Equity	$ 4,907,254	$ 4,670,900

The accompanying notes are an integral part of
these consollidated financial statements

VIRTUAL ACADEMICS.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30,	
	2001	2000
NET REVENUES	$ 814,177	$ 477,864
COSTS AND EXPENSES:		
Instructional and Educational Support	139,268	56,174
Selling and Promotion	132,898	77,266
General and Administrative	520,223	377,051
Total Operating Expenses	792,389	510,491
INCOME (LOSS) FROM OPERATIONS	21,788	(32,627)
OTHER INCOME:		
Interest Income	12,499	8,057
INCOME (LOSS) BEFORE INCOME TAXES	34,287	(24,570)
PROVISION FOR INCOME TAXES	12,686	-
NET INCOME (LOSS)	$ 21,601	$ (24,570)
BASIC AND DILUTED:		
Net Income (Loss) Per Common Share:	$ 0.00	$ (0.00)
Weighted Common Shares Outstanding	8,839,633	7,498,078

The accompanying notes are an integral part of
these consollidated financial statements

VIRTUAL ACADEMICS.COM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended September 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ 21,601	$ (24,5
Adjustments to Reconcile Net Income (Loss) to Net Cash Flows (Used in) Provided by Operating Activities:		
Depreciation	6,737	2,5
Consulting Expense on Common Stock Issued to Non-employees	-	55,3
(Increase) Decrease in:		
Tuition Receivable	(234,075)	(466,4
Prepaid Recruiting Fees	(3,222)	10,9
Other Prepaid Expenses	(97,489)	20,3
Deferred Income Taxes	12,686	
Increase (Decrease) in:		
Accounts Payable	41,168	18,3
Unearned Revenues	151,329	692,0
Accrued Recruiting Fees	21,662	(68,5
Other Accrued Expenses	593	(112,6
Net Cash Flows (Used in) Provided by Operating Activities	(79,010)	127,3
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Property and Equipment	(20,874)	(3,3
Net Cash Flows Used in Investing Activities	(20,874)	(3,3
Net (Decrease) Increase in Cash and Cash Equivalents	(99,884)	123,9
Cash and Cash Equivalents - Beginning of Period	1,775,206	465,6
Cash and Cash Equivalents - End of Period	$ 1,675,322	$ 589,6
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ -	$
Income Taxes	$ -	$

The accompanying notes are an integral part of
these consollidated financial statements

VIRTUAL ACADEMICS.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Virtual Academics.com, Inc. ("VADC" or the "Company") is a distance learning company that provides Internet education to students throughout the world. The business is primarily conducted under the names of Barrington University and Virtual Academics.com, Inc.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The accompanying consolidated financial statements for the interim periods are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the periods presented. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended June 30, 2001 and notes thereto contained in the Company's report on Form 10-KSB. The results of operations for the three months ended September 30, 2001 are not necessarily indicative of the results for the full fiscal year ending June 30, 2002.

The consolidated statements include the accounts of Virtual Academics.com, Inc. and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

Certain reclassifications have been made to the prior period's consolidated statements of operations to conform to the current period's presentation.

NOTE 2 - REVENUE RECOGNITION

Through September 30, 2000, the Company recognized tuition and registration revenue evenly over an estimated 24-month instructional period. The Company has developed a new database of student activity, which will allow it to more easily and accurately track student data including student progress on a course-by-course basis. Accordingly, the Company changed its method of calculating revenue to be recognized each quarter. For students registering on or after October 1, 2000, the Company will recognize tuition and registration revenue based on the number of courses actually completed in each student's course of study. For example, if a student completes three out of his nine required courses, the Company will recognize 33% of the tuition regardless of the amount of time that the student has taken to fulfill these requirements. The

Company will utilize the previous method for all students registered prior to October 1, 2000. The change in accounting method did not have a material effect on the consolidated financial statements.

VIRTUAL ACADEMICS.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 - OTHER PREPAID EXPENSES

In connection with a software licensing agreement with Nokia Mobile Phones Ltd. (the "Licensor"), a Finnish corporation, the Company paid a total of $108,900 to obtain the right to use and distribute certain software products of the Licensor to be used in or together with the Company's wireless products. The term of the agreement is for a period of one year from the effective date of August 15, 2001. The prepaid licensing fee is being amortized by the Company over the one year term. Accordingly, the Company recorded licensing expense of $13,612 during the three month period ended September 30, 2001.

NOTE 4 - STOCKHOLDERS' EQUITY

On February 1, 2000, the Company adopted a stock option plan (the "2000 Performance Equity Plan"). The purpose of the plan is to advance the interests of the Company by providing an additional incentive to attract and retain qualified and competent persons as employees, officers, directors and consultants upon whose efforts and judgment the success of the Company is largely dependent. The plan was effective as of February 1, 2000 and, unless sooner terminated by the Board of Directors of the Company in accordance with the terms thereof, shall terminate on February 1, 2010. The plan provides for both incentive stock options and nonqualified stock options to be granted. Options to purchase a maximum of 1,000,000 shares may be granted and the exercise prices of the options granted pursuant to this plan is determined by the Board or an option committee but may not be less than 100% of the fair market value on the day of grant. For holders of 10% or more of the combined voting power of all classes of the Company's stock, incentive options may not be granted at less than 110% of the fair value of the common stock at the date of grant and the option may not exceed 5 years. There were no options granted or exercised during the period.

On December 26, 2000, the board of directors authorized the Company to repurchase, in the open market, up to 200,000 shares of the common stock of the Corporation, to demonstrate its belief that the per share price of the Company's common stock is significantly undervalued and to indicate to outside investors its confidence in the current and future business prospects of the Company. As of November 1, 2001, no shares have been repurchased.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Litigation

The Trade School Review Association filed a complaint against us on July 3, 2001 in the Superior Court for the State of California for the County of San Diego. The association alleges in its complaint that we have violated California's Private Postsecondary and Vocational Education Reform Act of 1989, California's false advertising statutes and California's Consumer Legal Remedies Act and seeks an injunction against unlawful practices, disgorgement of profits, restitution and attorneys' fees, all in unspecified amounts. We intend to vigorously contest this lawsuit. In October 2001, we received a proposal from the association regarding a possible settlement, to which we are currently analyzing our response. Inasmuch as this matter is in its preliminary stages, we are not able at this time to assess the likelihood of a favorable or unfavorable outcome to the litigation or whether a settlement can be reached.

Other litigation is from time to time pending against us is in the ordinary course of business and we believe this litigation will not have a material adverse effect on our financial condition.

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

GENERAL

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the consolidated financial statements for the year ended June 30, 2001 and notes thereto contained in the Report on Form 10-KSB of Virtual Academics.com, Inc. (the "Company") as filed with the Securities and Exchange Commission. These financial statements reflect the consolidated operations of Virtual Academics.com, Inc. ("VADC" or the "Company") for the three-month period ended September 30, 2001 and 2000, respectively.

This report on Form 10-QSB contains forward-looking statements. These statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The reader is cautioned that all forward-looking statements are necessarily speculative and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. We do not have a policy of updating forward-looking statements and thus it should not be assumed that silence over time means that actual events are bearing out as we estimated in such forward-looking statements.

Through our subsidiaries, we are engaged in the online distance learning industry with a focus on the international, second-career adult and corporate training markets. We currently operate our main school, Barrington University, from Mobile, Alabama, where the State of Alabama Department of Education, Code of Alabama, Title 16-46-1 through 10, licenses the school. We offer degrees and training programs to students in over 80 countries and in multiple languages. The programs are virtual in their delivery format and can be completed from a laptop, home computer or through a wireless device.

We have established a dual degree program with the Universidad Yacambu of Lara Venezuela to offer Spanish language degree programs. In addition to degree completion programs, we are focusing on training corporate personnel, continuing education (CE) courses and wireless technology for education, which we believe is a major growth area.

Additionally, we are currently developing affordable wireless platforms to provide companies with quality training services for their employees. Our staff will work directly with Human Resource departments to ensure the training is scalable and applicable to their employees' needs. We will enable our WAP technology to provide seamless information to all employees, regardless if they are in the home, office or out in the field. Through a pilot program, we are currently offering a limited number of our business courses through the wireless Palm and other WAP enabled equipment through a Nokia gateway system. This technology will provide students the means to post messages, communicate with instructors and fellow students, complete exams, and to review syllabi and grades.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS (Continued)

SEASONALITY IN RESULTS OF OPERATIONS

We experience seasonality in our results of operations primarily as a result of changes in the level of student enrollments and course completion. While we enroll students throughout the year, December and January average enrollments and course completion and related revenues generally are lower than other quarters due to seasonal breaks in December and January. Accordingly, costs and expenses historically increase as a percentage of tuition and other net revenues as a result of certain fixed costs not significantly affected by the seasonal second quarter declines in net revenues.

We experience a seasonal increase in new enrollments in August of each year when most other colleges and universities begin their fall semesters. As a result, instructional costs and services and selling and promotional expenses historically increase as a percentage of tuition and other net revenues in the fourth quarter due to increased costs in preparation for the August peak enrollments.

We anticipate that these seasonal trends in the second and fourth quarters will continue in the future.

RESULTS OF OPERATIONS

Three months ended September 30, 2001 compared to three months ended September 30, 2000.

For the three-month period ended September 30, 2001, we had a 70% increase in earned revenues to $814,177 in 2001 from $477,864 for the comparable period in 2000. The increase in revenues is due primarily to an increase in the number of students that have been registered. Substantial increases in revenue and profitability can be achieved through modest improvements in student course completion rates. Unearned revenue represents the portion of tuition revenue invoiced but not earned and is reflected as a liability in the accompanying consolidated balance sheets. Since we will recognize tuition and registration revenue based on the number of courses actually completed in each student's course of study, student course completion efforts, if successful, are extremely beneficial to operating results. School personnel typically employ an approach based upon establishing personal relationships with students; for example, students may receive a telephone call from a school counselor if they have not completed courses. Our operating results may be impacted negatively by the registration of new students because we incur costs to enroll students but registration fees are initially deferred and then recognized with tuition over the course of the study period, under the guidelines of SEC Staff Accounting Bulletin 101.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS (Continued)

Three months ended September 30, 2001 compared to three months ended September30, 2000.

Instruction and educational support expenses consist primarily of student supplies such as textbooks as well as postage and shipping, credit card fees, computer related expenses, and printing fees. For the three months ended September 30, 2001, instructional and educational support expenses increased by 147% to $139,268 or 17% of net revenues as compared to $56,174 or 12% of net revenues for the three months ended September 30, 2000. The increase in instructional and educational support expenses and the related percentages was attributable to the increased cost of postage and delivery incurred for shipping books and supplies to our foreign students, increased credit card fees due to the fact that we encourage students to join our tuition payment program whereby students pay monthly by credit card, and an increase in student supplies. Student supplies increased to $85,658 or 10% of net revenues for the three months ended September 30, 2001 from $20,258 or 4% of net revenues for the three months ended September 30, 2000 due to increased textbook costs associated with certain courses and vendor price increases. Additionally, computer and internet related expenses increased to $30,150 or 4% of net revenues for the three months ended September 30, 2001 as compared to $8,487 or 2% of net revenues for the three months ended September 30, 2000 due to web site maintenance and upgrades.

Selling and promotion expense consists primarily of recruiting fees and advertising. For the three month period ended September 30, 2001, selling and promotion expenses increased by 72% to $132,898 or 16% of net revenues as compared to $77,266 or 16% of net revenues for the three months ended September 30, 2000. The increase in selling and promotion expenses is attributable to our increased advertising efforts. Although we are currently running advertisements in various national publications and newspapers in order to attract more students, we expect our advertising budget to remain constant through the end of fiscal 2002.

General and administrative expenses, which include payroll, professional fees, rent, travel and entertainment, insurance, bad debt, and other expenses, were $520,223 for the three months ended September 30, 2001 as compared to $377,051 for three months ended September 30, 2000. This amounted to 64% of net revenues for the three months ended September 30, 2001 as compared to 79% for the three months ended September 30, 2000. The increase was primarily due to three factors:

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS (Continued)

Three months ended September 30, 2001 compared to three months ended September 30, 2000.

First, personnel-related costs increased by 27% to $184,253 for the three months ended September 30, 2001 from $145,000 for the comparable period in 2000. This reflected the growth in the number of employees from 13 at September 30, 2000 to 15 at September 30, 2001 to handle student relations, develop new programs, and perform administrative tasks and to develop our wireless technologies. Second, the cost of professional fees increased to $100,148 for the three months ended September 30, 2001 as compared to $44,300 for the comparable period in 2000. The increase was attributable to the additional costs associated with operating a public entity such as auditing fees and legal fees. Third, the increased costs relating to office operations, such as postage and delivery costs incurred to ship degree program information, computer-related expenses, office supplies and credit card fees reflected our increased operational activities.

Interest income was $12,499 for the three months ended September 30, 2001 as compared to $8,057 for the three months ended September 30, 2000. We currently invest our excess cash balances in an interest-bearing account with a financial institution.

As a result of the foregoing factors, we recognized net income of $21,601 or $0.00 per share for the three months ended September 30, 2001 as compared to net loss of $(24,570) or $(0.00) per share for the three months ended September 30, 2000.

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2001, we had $1,675,332 in cash and cash equivalents on hand to meet our obligations, which represented a decrease of $99,884 from the beginning of the current fiscal year. We have financed our operating activities and our internal growth through cash generated from operations and through a private placement which raised $990,000.

For the three months ended September 30, 2001 and 2000, we had a (negative) positive cash flow from operating activities of $(79,010) and $127,326, respectively. During the three months ended September 30, 2001, we prepaid a licensing fee amounting to $108,900 in connection with a software licensing agreement. Except for the prepaid licensing fee, we expect that our operations will continue to provide positive cash flows.

We currently believe that with continued positive cash flow, we expect to be well capitalized sufficiently to fund our operations over the ensuing 12-month period, including the expected growth during this period. There can be no assurances, however, that our positive cash flow will continue or that we will not incur significant unexpected expenses.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS (Continued)

LIQUIDITY AND CAPITAL RESOURCES (Continued)

We currently have no significant commitments for capital expenditures and believe that our cash on hand plus cash flow from operations will provide adequate liquidity for the remainder of the fiscal year based on current operations. If we decide to pursue any acquisition opportunities or other expansion opportunities, we may need to raise additional capital, although there can be no assurance such capital- raising activities would be successful.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (the "Statements"). Statement No. 141 is effective for all business combinations initiated after June 30, 2001, while Statement No. 142 is effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company applied the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of Statement No. 142 did not have a material effect on our financial position or results of operations.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Trade School Review Association filed a complaint against us on July 3, 2001 in the Superior Court for the State of California for the County of San Diego. The association alleges in its complaint that we have violated California's Private Postsecondary and Vocational Education Reform Act of 1989, California's false advertising statutes and California's Consumer Legal Remedies Act and seeks an injunction against unlawful practices, disgorgement of profits, restitution and attorneys' fees, all in unspecified amounts. We intend to vigorously contest this lawsuit. In October 2001, we received a proposal from the association regarding a possible settlement, to which we are currently analyzing our response. Inasmuch as this matter is in its preliminary stages, we are not able at this time to assess the likelihood of a favorable or unfavorable outcome to the litigation or whether a settlement can be reached.

Other litigation is from time to time pending against us is in the ordinary course of business and we believe this litigation will not have a material adverse effect on our financial condition.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, duly authorized.

VIRTUAL ACADEMICS.COM, INC.

Dated: November 13, 2001

By: /s/ Steven Bettinger

Steven Bettinger, President and
Chief Executive Officer

Dated: November 13, 2001

By: /s/ Robert Bettinger

Robert Bettinger, Chairman of the
Board, Treasurer, Principal
Financial and Accounting Officer