

SMART ONLINE INC  
Form 10-Q  
November 15, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2010

OR

Transition report pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-32634

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SMART ONLINE, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

95-4439334  
(I.R.S. Employer  
Identification No.)

4505 Emperor Blvd., Ste. 320  
Durham, North Carolina  
(Address of principal executive offices)

27703  
(Zip Code)

(919) 765-5000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 11, 2010, there were 18,343,542 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

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SMART ONLINE, INC.

FORM 10-Q

For the Quarterly Period Ended September 30, 2010

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

SMART ONLINE, INC.  
CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (unaudited)	December 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 56,686	\$ 119,796
Accounts Receivable, Net	-	13,056
Note Receivable	-	-
Prepaid Expenses	203,339	240,840
Total current assets	260,025	373,692
Property and equipment, net	216,399	258,450
Capitalized software, net	-	450,782
Note Receivable, non-current	-	-
Prepaid expenses, non-current	-	110,700
Intangible assets, net	150,000	150,000
Other assets	5,000	2,496
<b>TOTAL ASSETS</b>	<b>\$ 631,424</b>	<b>\$ 1,346,120</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities		
Accounts payable	\$ 537,928	\$ 518,309
Notes payable (See Note 3)	2,124,678	1,964,281
Deferred revenue (See Note 2)	27,561	40,115
Accrued liabilities – Nouri	1,400,000	1,802,379
Accrued liabilities (See Note 2)	2,266,165	2,623,959
Total current liabilities	6,356,332	6,949,043
Long-term liabilities:		
Long-term portion of notes payable (See Note 3)	12,370,367	9,785,255
Deferred revenue (See Note 2)	1,153	5,601
Total long-term liabilities	12,371,520	9,790,856
Total liabilities	18,727,852	16,739,899
Commitments and contingencies (See Note 4)		
Stockholders' equity (deficit):		
Preferred stock, 0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2010 and December 31, 2009		
Common Stock, \$.001 par value, 45,000,000 shares authorized, 18,342,542 and 18,332,542 shares Issued and Outstanding at September 30, 2010 and December 31, 2009 respectively.	18,343	18,333
Additional paid-in capital	67,059,722	67,036,836
Accumulated deficit	(85,174,493)	(82,448,948)
Total Stockholders' Deficit	(18,096,428)	(15,393,779)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 631,424</b>	<b>\$ 1,346,120</b>

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



SMART ONLINE, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>REVENUES:</b>				
Subscription fees	\$ 119,152	\$ 159,149	\$ 378,556	\$ 610,751
Professional service fees	12,600	63,200	82,425	261,699
License fees	65,850	11,250	224,500	33,750
Hosting fees	37,722	33,751	119,716	139,007
Other revenue	25,644	26,300	79,389	100,777
<b>Total revenues</b>	<b>260,968</b>	<b>293,650</b>	<b>884,586</b>	<b>1,145,984</b>
<b>COST OF REVENUES</b>	<b>344,156</b>	<b>430,967</b>	<b>1,046,400</b>	<b>1,125,901</b>
<b>GROSS PROFIT (LOSS)</b>	<b>(83,188)</b>	<b>(137,317)</b>	<b>(161,814)</b>	<b>20,083</b>
<b>OPERATING EXPENSES:</b>				
General and administrative	408,004	2,355,353	1,469,892	4,112,993
Sales and marketing	181,132	180,759	513,408	707,289
Research and development	7,695	36,406	50,080	540,232
Loss on impairment	-	-	-	438,286
(Gain) loss on disposal of assets, net	398,962	(12,307)	398,962	(22,574)
<b>Total operating expenses</b>	<b>995,793</b>	<b>2,560,211</b>	<b>2,432,342</b>	<b>5,776,226</b>
<b>LOSS FROM OPERATIONS</b>	<b>(1,078,981)</b>	<b>(2,697,528)</b>	<b>(2,594,156)</b>	<b>(5,756,143)</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense, net	(244,189)	(169,609)	(687,909)	(455,951)
Gain on legal settlements, net	2,547	-	556,517	6,000
Other Income	-	-	-	10,267
<b>Total other expense</b>	<b>(241,642)</b>	<b>(169,609)</b>	<b>(131,392)</b>	<b>(439,684)</b>
<b>NET LOSS</b>	<b>\$ (1,320,623)</b>	<b>\$ (2,867,137)</b>	<b>\$ (2,725,548)</b>	<b>\$ (6,195,827)</b>
<b>NET LOSS PER COMMON SHARE:</b>				
Basic and fully diluted	\$ (0.07)	\$ (0.16)	\$ (0.15)	\$ (0.34)
<b>WEIGHTED-AVERAGE NUMBER OF SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE</b>				
Basic and fully diluted	18,342,542	18,332,542	18,342,542	18,332,542

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



SMART ONLINE, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$ (2,725,548)	\$ (6,195,827)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	100,892	462,761
Bad debt expense	377,348	2,207,685
Stock-based compensation expense	22,884	88,235
Loss on impairment of intangible assets		438,228
(Gain) loss on disposal of assets	398,962	(22,574)
Changes in assets and liabilities:		
Accounts receivable	(309,404)	213,010
Notes receivable	(54,888)	(3,228,038)
Prepaid expenses	148,204	126,005
Other assets	(2,504)	(352)
Deferred revenue	(17,002)	(188,170)
Accounts payable	19,619	1,768,181
Accrued and other expenses	(760,173)	1,627,739
Net cash used in operating activities	(2,801,610)	(2,703,117)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of furniture and equipment	(7,009)	(14,565)
Capitalized software	-	(206,835)
Proceeds from sale of furniture and equipment	-	45,362
Net Cash used in investing activities	(7,009)	(176,038)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments on notes payable	(4,261,620)	(5,068,063)
Debt borrowings	7,007,129	7,947,365
Net cash provided by financing activities	2,745,509	2,879,302
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(63,110)	147
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	119,796	18,602
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 56,686	\$ 18,749
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 173,818	\$ 461,360
Taxes	\$ -	\$ -

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





SMART ONLINE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business - Smart Online, Inc. (the "Company") was incorporated in the State of Delaware in 1993. The Company develops and markets software products and services targeted to small businesses that are delivered via a Software-as-a-Service ("SaaS") model. The Company sells its SaaS products and services primarily through private-label marketing partners. In addition, the Company provides sophisticated and complex website consulting and development services, primarily in the e-commerce retail and direct-selling organization industries. The Company maintains a website that offers additional information about these capabilities as well as certain corporate information at [www.smartonline.com](http://www.smartonline.com).

Basis of Presentation - The financial statements as of and for the three and nine months ended September 30, 2010 and 2009 included in this Quarterly Report on Form 10-Q are unaudited. The balance sheet as of December 31, 2009 is obtained from the audited financial statements as of that date. The accompanying statements should be read in conjunction with the audited financial statements and related notes, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission (the "SEC") on April 15, 2010 (the "2009 Annual Report").

The financial statements have been prepared in accordance with United State Generally Accepted Accounting Principles ("US GAAP"). In the opinion of the Company's management, the unaudited statements in this Quarterly Report on Form 10-Q include all normal and recurring adjustments necessary for the fair presentation of the Company's statement of financial position as of September 30, 2010, and its results of operations and cash flows for the three and nine months ended September 30, 2010 and 2009. The results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2010.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the three and nine months ended September 30, 2010 and 2009, the Company incurred net losses as well as negative cash flows and had deficiencies in working capital. In addition, the Company was involved in the settlement of a class action lawsuit (See Note 7 "Commitments and Contingencies," in the 2009 Annual Report), and the settlement of a lawsuit for legal fees advanced on behalf of former officers and employees who were convicted in Federal Court. These factors indicate that the Company may be unable to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities that might be necessary should the Company be unable to continue as a going concern. At November 10, 2010, the Company does have a commitment from its convertible secured subordinated noteholders to purchase up to an additional \$2.6 million in convertible notes upon approval and call by the Company's Board of Directors. There can be no assurance that, if the noteholders do not purchase the \$2.6 million in convertible notes, the Company will be able to obtain alternative funding. There can be no assurance that the Company's efforts to raise capital or increase revenue will be successful. If these efforts are unsuccessful, the Company may have to cease operations and liquidate the business. The Company's plans include the development of additional new products and applications, and further enhancement of its existing small-business applications and tools. The Company's continuation as a going concern depends upon its capability to generate sufficient cash flows to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitable operations and positive cash flows.

Significant Accounting Policies - In the opinion of the Company's management, the significant accounting policies used for the three and nine months ended September 30, 2010 are consistent with those used for the years ended December 31, 2009 and 2008. Accordingly, please refer to the 2009 Annual Report for the Company's significant accounting policies.

Use of Estimates - The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions in the Company's financial statements and notes thereto. Significant estimates and assumptions made by management include the determination of the provision for income taxes, the fair market value of stock awards issued, and the period over which revenue is generated. Actual results could differ materially from those estimates.

Fair Value of Financial Instruments - US GAAP requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate that value. Due to the short period of time to maturity, the carrying amounts of cash equivalents, accounts receivable, accounts payable, accrued liabilities, and notes payable reported in the financial statements approximate the fair value.

Reclassifications - Certain prior year and comparative period amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on previously reported net income or stockholders' equity.

Segments - Segmentation is based on an entity's internal organization and reporting of revenue and operating income based upon internal accounting methods commonly referred to as the "management approach." Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Interim Chief Executive Officer, who reviews financial information presented on a consolidated basis. Accordingly, the Company has determined that it has a single reporting segment and operating unit structure.

Concentration of Credit Risk - Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. At times, cash balances may exceed the Federal Deposit Insurance Corporation ("FDIC") insurable limits. See Note 6, "Major Customers and Concentration of Credit Risk," for further discussion of risk within accounts receivable.

Allowance for Doubtful Accounts - The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability, failure, or refusal of its customers to make required payments. The need for an allowance for doubtful accounts is evaluated based on specifically identified amounts that management believes to be potentially uncollectible. If actual collections experience changes, revisions to the allowance may be required.

From time to time, the Company, as part of its negotiated contracts, has granted extended payment terms to its strategic partners. As payments become due under the terms of the contract, they are invoiced and reclassified as accounts receivable. Based on these criteria, management determined that at September 30, 2010, an allowance for doubtful accounts of \$1,199,859 was required, comprising the full outstanding balance of a direct-selling organization customers' account and contract receivable.

Intangible Assets - Intangible assets consist primarily of assets obtained through the acquisitions of iMart Incorporated ("iMart") in 2005 and includes the trade name. The iMart trade name is deemed by management to have an indefinite life and is not amortized.

Revenue Recognition - The Company derives revenue primarily from subscription fees charged to customers accessing its SaaS applications; the perpetual or term licensing of software platforms or applications; and professional services, consisting of consulting, development, hosting, and maintenance services. These arrangements may include delivery in multiple-element arrangements if the customer purchases a combination of products and/or services. Because the Company licenses, sells, leases, or otherwise markets computer software, it uses the residual method pursuant to the US GAAP, as amended. This method allows the Company to recognize revenue for a delivered element when such element has vendor specific objective evidence ("VSOE") of the fair value of the delivered element. If VSOE cannot be determined or maintained for an element, it could impact revenues as all or a portion of the revenue from the multiple-element arrangement may need to be deferred.

If multiple-element arrangements involve significant development, modification, or customization or if it is determined that certain elements are essential to the functionality of other elements within the arrangement, revenue is deferred until all elements necessary to the functionality are provided by the Company to a customer. The determination of whether the arrangement involves significant development, modification, or customization could be complex and require the use of judgment by management.

Under US GAAP, provided the arrangement does not require significant development, modification, or customization, revenue is recognized when all of the following criteria have been met:

1. persuasive evidence of an arrangement exists
2. delivery has occurred
3. the fee is fixed or determinable
4. collectability is probable

If at the inception of an arrangement the fee is not fixed or determinable, revenue is deferred until the arrangement fee becomes due and payable. If collectability is deemed not probable, revenue is deferred until payment is received or collection becomes probable, whichever is earlier. The determination of whether fees are collectible requires judgment of management, and the amount and timing of revenue recognition may change if different assessments are made.

Under the provisions of US GAAP, consulting, website design fees, and application development services are accounted for separately from the license of associated software platforms when these services have value to the customer and there is objective and reliable evidence of fair value of each deliverable. When accounted for separately, revenues are recognized as the services are rendered for time and material contracts, and when milestones are achieved and accepted by the customer for fixed-price or long-term contracts. The majority of the Company's consulting service contracts are on a time and material basis and are typically billed monthly based upon standard professional service rates.

Application development services are typically fixed price and of a longer term. As such, they are accounted for as long-term construction contracts that require revenue recognition to be based on estimates involving total costs to complete and the stage of completion. The assumptions and estimates made to determine the total costs and stage of completion may affect the timing of revenue recognition, with changes in estimates of progress to completion and costs to complete accounted for as cumulative catch-up adjustments. If the criteria for revenue recognition on construction-type contracts are not met, the associated costs of such projects are capitalized and included in costs in excess of billings on the balance sheet until such time that revenue recognition is permitted.

Subscription fees primarily consist of sales of subscriptions through private-label marketing partners to end users. We typically have a revenue share arrangement with these private-label marketing partners in order to encourage them to market our products and services to their customers. Subscriptions are generally payable on a monthly basis and are typically paid via credit card of the individual end user. Any payments received in advance of the subscription period are accrued as deferred revenue and amortized over the subscription period. In the past, we recognized all subscription revenue on a gross basis and in accordance with our policy to periodically review our accounting policies we identified the fact that certain contracts required the reporting of subscription revenue on a gross basis and others on a net basis according to US GAAP. On that basis, we continue to report subscription revenue from certain contracts on a gross basis and others on a net basis. The net effect of this reclassification of expenses only impacts gross revenue and certain gross expenses; it does not change our net income. Because our customers generally do not have the contractual right to take possession of the software we license or market at any time, we recognize revenue on hosting and

maintenance fees as the services are provided in accordance with US GAAP that includes the right to use software stored on another entity's hardware.

Deferred Revenue - Deferred revenue consists of billings or payments received in advance of revenue recognition, and it is recognized as the revenue recognition criteria are met. Deferred revenue also includes certain professional service fees and license fees where all the criteria of US GAAP were not met. Deferred revenue that will be recognized over the succeeding 12-month period is recorded as current and the remaining portion is recorded as non-current.

Cost of Revenues - Cost of revenues primarily is composed of costs related to third-party hosting services, salaries and associated costs of customer support and professional services personnel, credit card processing, depreciation of computer hardware and software used in revenue-producing activities, domain name and e-mail registrations, and allocated development expenses and general and administrative overhead.

The Company allocates development expenses to cost of revenues based on time spent by development personnel on revenue-producing customer projects and support activities. The Company allocates general and administrative overhead such as rent and occupancy expenses, depreciation, general office expenses, and insurance to all departments based on headcount. As such, general and administrative overhead expenses are reflected in cost of revenues and each operating expense category.

Software Development Costs - Current US GAAP requires capitalization of certain software development costs subsequent to the establishment of technological feasibility, with costs incurred prior to this time expensed as research and development. Technological feasibility is established when all planning, designing, coding, and testing activities that are necessary to establish that the product can be produced to meet its design specifications have been completed. Historically, the Company had not developed detailed design plans for its SaaS applications, and the costs incurred between the completion of a working model of these applications and the point at which the products were ready for general release had been insignificant. These factors, combined with the historically low revenue generated by the sale of the applications that do not support the net realizable value of any capitalized costs, resulted in the continued expensing of underlying costs as research and development.

On a continuing basis, we review the value of all assets of the Company. During the quarter ending September 30, 2010, we wrote off the entire value of the previously capitalized software for the Onebiz® product since there were no customers and the product was not competitive with similar offerings in the marketplace. In addition, management has changed the focus of sales and marketing efforts away from the OneBiz® product.

Advertising Costs - The Company expenses all advertising costs as they are incurred. The amounts charged to sales and marketing expense during the third quarter of 2010 and 2009 were \$47,480 and \$3,000, respectively. During the first nine months of 2010 and 2009, these amounts were \$97,088 and \$42,364, respectively.

Net Loss Per Share - Basic net loss per share is computed using the weighted-average number of common shares outstanding during the relevant periods. Diluted net loss per share is computed using the weighted-average number of common and dilutive common equivalent shares outstanding during the relevant periods. Common equivalent shares consist of convertible notes, stock options, and warrants that are computed using the treasury stock method.

Stock-Based Compensation - The Company adopted US GAAP provisions related to share-based payments which requires companies to expense the value of employee stock options, restricted stock, and similar awards and applies to all such securities outstanding and vested.

In computing the impact of stock-based compensation expense, the fair value of each award is estimated on the date of grant based on the Black-Scholes option-pricing model utilizing certain assumptions for a risk-free interest rate, volatility, and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the amount of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

The following is a summary of the Company's stock-based compensation expense for the periods indicated:

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	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2010	2009	2010	2009
Compensation expense included in G&A expense related to stock options	\$ 8,393	\$ 5,191	\$ 17,184	\$ 40,155
Compensation expense included in G&A expense related to restricted stock awards	2,850	560	5,700	48,080
Total expense	\$ 11,243	\$ 5,751	\$ 22,884	\$ 88,235

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The fair value of option grants under the Company's equity compensation plan and other stock option issuances during the three months and nine months ended September 30, 2010 and 2009 were estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	97%	70%	97%	69%
Risk-free interest rate	1.27%	2.37%	1.9%	2.3%
Expected lives (years)	4.0	4.0	4.0	4.0

The expected lives of the options represent the estimated period of time until exercise or forfeiture and are based on historical experience of similar awards. Expected volatility is partially based on the historical volatility of the Company's common stock since the end of the prior fiscal year as well as management's expectations for future volatility. The risk-free interest rate is based on the published yield available on U.S. treasury issues with an equivalent term remaining equal to the expected life of the option.

The following is a summary of the stock option activity for the nine months ended September 30, 2010:

	Shares	Weighted Average Exercise Price
BALANCE, December 31, 2009	132,500	\$ 4.43
Granted	125,000	1.14
Forfeited	(42,500)	3.31
Exercised	-	-
BALANCE, September 30, 2010	215,000	\$ 2.74

Recently Issued Accounting Pronouncements -. The current US GAAP pronouncements concerning the life of intangible assets require entities to consider their own historical experience in renewing or extending similar arrangements when developing assumptions regarding the useful lives of intangible assets and also mandates certain related disclosure requirements.

All other new and recently issued, but not yet effective, accounting pronouncements have been deemed to be not relevant to the Company and therefore are not expected to have any impact once adopted.

## 2. ASSETS & LIABILITIES

### Prepaid Expenses

In July 2008, the Company entered into a 36-month sublease agreement with Advantis Real Estate Services Company for approximately 9,837 square feet of office space in Durham, North Carolina, into which the Company relocated its headquarters in September 2008. The agreement included the conveyance of certain furniture to the Company without a stated value and required a lump-sum, upfront payment of \$500,000 that was made in September 2008. Management has assessed the fair market value of the furniture to be approximately \$50,000, and this amount was capitalized and is subject to depreciation in accordance with the Company's fixed asset policies. The remainder of the payment was recorded as prepaid expense; with the portion relating to rent for periods beyond the next twelve months classified as

non-current, and is being amortized to rent expense over the term of the lease. The Company's prepaid sublease with Advantis Real Estate Services Company includes an expiration date of September 2011.

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Intangible Assets

The following table summarizes information about intangible assets at September 30, 2010:

Asset Category	Value Assigned	Residual Value	Weighted Average Amortization Period (in Years)	Accumulated Amortization
----------------	-------------------	-------------------	---	-----------------------------