ILINC COMMUNICATIONS INC
Form 10-Q
August 12, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(MARK ONE)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

OR

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

FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER 1-13725

ILINC COMMUNICATIONS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	76-0545043 (I.R.S. EMPLOYER IDENTIFICATION NO.)
2999 NORTH 44TH STREET, SUITE 650, PHOENIX, ARIZONA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	85018 (ZIP CODE)

(602) 952-1200
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act 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 ( )

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2 of the Exchange Act). Yes ( ) No (X)

The number of shares of Common Stock of the Registrant, par value $.001

per share, outstanding at August 12, 2005 was 24,144,875, net of shares held in treasury.

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FORM 10-Q REPORT INDEX

FORWARD-LOOKING STATEMENTS

Unless the context requires otherwise, references in this document to "iLinc Communications," "iLinc" the "Company," "we," "us," and "our" refer to iLinc Communications, Inc.

Statements contained in this Annual Report on Form 10-K that involve words like "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These are statements that relate to future periods and include, but are not limited to, statements as to our ability to: sell our products and services; improve the quality of our software; derive overall benefits of our products and services; introduce new products and versions of our existing products; sustain and increase revenue from existing products; integrate current and emerging technologies into our product offerings; control our expenses including those related to sales and marketing, research and development, and general and administrative expenses; control changes in our customer base; support our customers and provide sufficient technological infrastructure; obtain sales or increase revenues; impact the results of legal proceedings; control and implement changes in our employee headcount; obtain sufficient cash flow; manage liquidity and capital resources; realize positive cash flow from operations; or realize net earnings.

Such forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from anticipated results. These risks and uncertainties include, but are not limited to, our dependence on our products or services, market demand for our products and services, our ability to attract and retain customers and channel partners, our ability to expand our technological infrastructure to meet the demand from our customers, our ability to recruit and retain qualified employees, the ability of channel partners to successfully resell our products, the status of the overall economy, the strength of competitive offerings, the pricing pressures created by market forces, and the risks discussed herein (see "Managements Discussion and Analysis of Financial Condition and Results of Operations"). All forward-looking statements included in this report are based on information available to us as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein, to reflect any change in our expectations or in events, conditions or circumstances on which any such statement is based. Readers are urged to carefully review and consider the various disclosures made in this report and in our other reports filed with the SEC that attempt to advise interested parties of certain risks and factors that may affect our business. Our reports are available free of charge as soon as reasonably practicable after such material is electronically filed with the SEC and may be obtained through our Web site located at www.ilinc.com.

iLinc, iLinc Communications, iLinc Suite, MeetingLinc, LearnLinc, ConferenceLinc, SupportLinc, iLinc On-Demand, and their respective logo are trademarks or registered trademarks of iLinc Communications, Inc. All other company names and products may be trademarks of their respective companies.

PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ILINC COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	J (U
ASSETS	
Current assets:	
Cash and cash equivalents	$
Accounts receivable, net of allowance for doubtful accounts of $100 and $84, respectively	
Note receivable	
Prepaid and other current assets	
Total current assets	
Property and equipment, net	
Goodwill	
Intangible assets, net	
Other assets	
Assets of discontinued operations	
Total assets	$
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Current portion of long term debt	$
Accounts payable and accrued liabilities	
Current portion of capital lease liabilities	
Deferred revenue	
Total current liabilities	
Long term debt, less current maturities, net of discount of $2,000 and $2,120, respectively	
Capital lease liabilities, less current maturities	
Total liabilities	
Commitments and contingencies	
SHAREHOLDERS' EQUITY:	
Series A preferred stock, $.001 par value 10,000,000 shares authorized, 127,500 shares issued and outstanding, liquidation preference of $1,275,000	
Common stock, $.001 par value 100,000,000 shares authorized, 25,577,287 issued	
Additional paid-in capital	
Accumulated deficit	
Less: 1,432,412 treasury shares at cost	
Total shareholders' equity	

Total liabilities and shareholders' equity	$

(A) Derived from the audited consolidated financial statements as of Marc

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE INTERIM CONDENSED CONSOLIDATED

ILINC COMMUNICATIONS, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED JUNE 30,	
	2005	
Revenues		
Licenses	$ 522	$
Software and audio services	1,700	
Maintenance and professional services	451	
Total revenues	2,673	
Cost of revenues		
Licenses	32	
Software and audio services	1,083	
Maintenance and professional services	113	
Amortization of acquired developed technology	119	
Total cost of revenues	1,347	
Gross profit	1,326	
Operating expenses		
Research and development	358	
Sales and marketing	785	
General and administrative	641	
Total operating expenses	1,784	
Loss from operations	(458)	
Interest expense	(431)	
Interest income and other	5	
(Loss) gain on settlement of debt and other Obligations	(8)	
Loss from continuing operations before income taxes	(892)	
Income taxes	--	

Loss from continuing operations	(892)	
Income from discontinued operations	7	
Net loss	(885)	
Series A preferred stock dividends	(25)	
Loss available to common shareholders	$ (910)	$
Loss per common share, basic and diluted		
From continuing operations	$ (0.04)	$
From discontinued operations	--	
Net loss per common share	$ (0.04)	$
Number of shares used in calculation of loss per share, basic and diluted	24,145	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL ST

ILINC COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)
(IN THOUSANDS)

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID - IN CAPITAL	ACC D
	SHARES	AMOUNT	SHARES	AMOUNT		
Balances, April 1, 2005	127	$ --	25,577	$ 26	$ 42,175	$
Warrant grant	--	--	--	--	6	
Vesting of restricted stock grant	--	--	--	--	10	
Series A preferred stock dividends	--	--	--	--	--	
Net loss	--	--	--	--	--	
Balances, June 30, 2005	127	$ --	25,577	$ 26	$ 42,191	$

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE INTERIM CONDENSED CONSOLIDATED

ILINC COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30, 2005	2
Net cash used in operating activities	$ (191)	$
Cash flows from investing activities:		
Capital expenditures	(22)	
Acquisitions, net of cash acquired	(9)	
Deferred acquisitions costs	--	
Cash acquired in acquisition	--	
Net cash used in investing activities	(31)	
Cash flows from financing activities:		
Proceeds from 2004 private placement	--	
Series A preferred stock dividends	(25)	
Proceeds from exercise of stock options	--	
Repayment of long-term debt	(72)	
Repayment of capital lease liabilities	(35)	
Financing costs incurred	(28)	
Net cash (used in) provided by financing activities	(160)	
Cash flows from continuing operations	(382)	
Cash flows from discontinued operations	111	
Net change in cash and cash equivalents	(271)	
Cash and cash equivalents, beginning of period	532	
Cash and cash equivalents, end of period	$ 261	$

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL ST

ILINC COMMUNICATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND NATURE OF OPERATIONS

Headquartered in Phoenix, Arizona, iLinc Communications, Inc. is a leading provider of Web conferencing, audio conferencing and collaboration software and services. The Company develops and sells software that provides real-time collaboration and training using Web-based tools. Our four-product iLinc Suite, led by LearnLinc (which also includes MeetingLinc, ConferenceLinc, and SupportLinc), is an award winning virtual classroom, Web conferencing and collaboration suite of software. With its Web collaboration, conferencing and virtual classroom products, the Company provides simple, reliable and cost-effective tools for remote presentations, meetings and online events. The Company's software is based on a proprietary architecture and code that finds its origins as far back as 1994, in what the Company believes to be the beginnings of the Web collaboration industry. Versions of the iLinc Suite have been translated into six languages, and it is currently available in version 7.7. The Company's customers may choose from several different pricing options for the iLinc Suite, and may receive its products on a stand-alone basis or integrated with one or a number of its other award-winning products, depending upon their needs. Uses for the four-product suite of Web collaboration software include online business meetings, sales presentations, training sessions, product demonstrations and technical support assistance. The Company sells its software solutions to large and medium-sized corporations inside and outside of the Fortune 1000. The Company markets its products using a direct sales force and a distribution channel consisting of agents and value added resellers. The Company allows customers to choose between purchasing a perpetual license or subscribing to a term license to its products, providing for flexibility in pricing and payment methods.

We maintain corporate headquarters in Phoenix, Arizona and have occupied that 14,000 square foot Class A facility since the Company's inception in 1998. The Phoenix lease began in 1998 and has a term of 10 years. The Phoenix office can accommodate up to 85 employees and is fully equipped with up-to-date computer equipment and server facilities. We also maintain a 2,500 square foot Class B facility in Troy, New York with an emphasis in that location on research and development, and technical support. The Company also maintains offices in Springville, Utah, occupying a Class A facility in two adjacent buildings. The first building houses its administrative and IT functions, with 10,000 square feet of space, with the second housing the operator complex and sales organizations with 6,122 square feet. The Springville lease began in 2003 and has a term of five years. The Springville offices can accommodate up to 100 employees and is fully equipped with up-to-date computer equipment. The facility also provides a fully redundant co-location and server facility for all audio conferencing activities and all hosted Web conferencing services.

The Company began operations in March of 1998. Its formation included the simultaneous rollup of fifty private businesses and an initial public offering. The Company's initial goals included providing training enhancement services over the Internet using a browser based system. In 2002, the Company began shifting its focus away from its legacy business, settling on its current focus on Web conferencing and audio conferencing and in doing so ultimately changed its name to iLinc Communications, Inc. in February 2004.

The unaudited condensed consolidated financial statements included herein have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to such regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes the presentation and disclosures herein are adequate to make the information not misleading, but do not purport to be a complete presentation inasmuch as all note disclosures required by generally accepted accounting principles are not included. In the opinion of management, the unaudited condensed consolidated financial statements reflect all elimination entries and normal recurring adjustments that are necessary for a fair statement of the results for the interim periods ended June 30, 2005 and 2004.

Fiscal operating results for interim periods are not necessarily indicative of the results for full years. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements of the Company and related notes thereto, and management's discussion and analysis related thereto, all of which are included in the Company's annual report on Form 10-K as of and for the year ended March 31, 2005, as filed with the SEC.

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2. BASIS OF PRESENTATION

The Company's condensed consolidated financial statements have been prepared on a basis which assumes that it will continue as a going concern and which contemplates the realization of its assets and the satisfaction of its liabilities and commitments in the normal course of business. The Company has a significant working capital deficiency and has suffered substantial recurring losses and negative cash flows from operations. These matters, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plan with regard to these matters include continued development, marketing, and licensing of its Web conferencing and audio conferencing products and services through both internal growth through direct and indirect sales efforts and by external growth by acquisition. Additionally, the Company intends to convert a portion of its debt into equity that would lessen the burden of principal repayment or interest expense. In combination with debt reductions through conversion to equity, the Company intends to raise additional capital through a combination of equity financings or debt financings. A portion of the Company's plans to address these issues includes further reductions in overhead or the negotiation of payables from acquisitions. Although management continues to pursue these plans, there is no assurance that the Company will be successful in converting its debt, obtaining financings, or obtaining sufficient revenues from its products and services to provide adequate cash flows to sustain operations. The consolidated financial statements do not include any adjustments related to the outcome of this uncertainty.

During the year ended March 31, 2004, the Company discontinued its practice management services segment. Accordingly, the Company has reflected these operations as discontinued and has reclassified the prior year consolidated financial statements to conform to such presentation. Discontinued operations are discussed further in Note 12.

3. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The more significant areas requiring use of estimates and judgment relate to revenue recognition, accounts receivable and notes receivable valuation reserves, realizability of intangible assets, realizability of deferred income tax assets and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of such estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

STOCK-BASED COMPENSATION

In December 2002, the FASB issued SFAS No. 148, "ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE - AN AMENDMENT TO SFAS NO. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method on accounting for stock-based employee compensation. The Company has adopted the disclosure provisions of SFAS No. 123 and accordingly, the implementation of SFAS No. 148 did not have a material effect on the Company's consolidated financial position or results of operations.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). Under this new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and to recognize the expense over the service period. SFAS

123R will be effective for periods beginning after April 1, 2006 and allows for several alternative transition methods. The Company expects to adopt SFAS 123R in its second quarter of fiscal 2006 on a prospective basis, which will require recognition of compensation expense for all stock option or other equity-based awards that vest or become exercisable after the effective date. The Company is currently assessing the impact of this proposed Statement on our share-based compensation programs, however, it expects that the requirement to expense stock options and other equity interests that have been or will be granted to employees will increase its operating expenses and result in lower earnings per share.

The fair value for options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	THREE MONTHS ENDED JUNE 30,	
	2005	2004
Risk free interest rate	3.89%	4.40% - 4.71%
Dividend yield	0%	0%
Volatility factors of the expected market price of the Company's common stock	71%	87% - 89%
Weighted-average expected life of Options	10 years	10 years

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS):

	THREE MONTHS EN
	2005
Net loss available to common shareholders, as reported	$ (910)
Plus: Stock-based employee compensation expense included in reported net loss	10
Less: Total stock-based employee compensation expense determined using fair value based method	(62)
Pro forma net loss	$ (962)
Loss per share:	
Basic and diluted - as reported	$ (0.04)
Basic and diluted - pro forma	$ (0.04)

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). Under this new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and to recognize the expense over the service period. SFAS 123R will be effective for periods beginning after April 1, 2006 and allows for several alternative transition methods. The Company expects to adopt SFAS 123R in its second quarter of fiscal 2006 on a prospective basis, which will require recognition of compensation expense for all stock option or other equity-based awards that vest or become exercisable after the effective date. The Company is currently assessing the impact of this proposed Statement on its share-based compensation programs, however, we expect that the requirement to expense stock options and other equity interests that have been or will be granted to employees will increase its operating expenses and result in lower earnings per share.

RECLASSIFICATIONS

Certain prior year balances in the consolidated financial statements have been reclassified to conform to the fiscal 2005 presentation.

4. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for each reporting period presented. Diluted earnings per share are computed similar to basic earnings per share while giving effect to all potential dilutive common stock equivalents that were outstanding during each reporting period. For the 3 months ended three months ending June 30, 2005 and 2004, options and warrants to purchase 4,752,602, and 9,987,474 shares of common stock respectively were excluded from the computation of diluted earnings per share because of their anti-dilutive effect. Additionally, series A preferred stock and debt convertible into 8,175,000 shares of common stock were excluded from the computation of diluted earnings/loss per share because inclusion of such would be antidilutive. Furthermore, a restricted stock grant of 450,000 shares has been excluded from the earnings per share calculations. Lastly, shares of its common stock currently not reflected as issued and outstanding totaling 704,839 (relating to the Glyphics acquisition and held in escrow pending determination of the performance requirement and indemnity claims - Note 11) have been excluded from the computation.

5. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill consisted of the following:

	JUNE 30, 2005	MARCH 31, 2005
	(IN THOUSANDS)	
Goodwill	$ 10,948	$ 10,797

The changes in the carrying amount of the goodwill for the years ended March 31, 2005 and 2004 (IN THOUSANDS):

Balance, March 31, 2005	$ 10,797
Mentergy acquisition, royalty accrual	142
Glyphics acquisition	9
Balance, June 30, 2005	$ 10,948

Intangible assets consisted of the following:

	JUNE 30, 2005		
	WEIGHTED AVERAGE REMAINING LIVES	GROSS CARRYING AMOUNT	ACCUMULA AMORTIZA
	(YEARS)		(IN THOUS
AMORTIZED INTANGIBLE ASSETS:			
Deferred financing costs	5.69	$ 1,141	$
Purchased software	1.76	1,481	
Customer relationship	4.92	1,230	
		$ 3,852	$ (

	MARCH 31, 2005		
	WEIGHTED AVERAGE REMAINING LIVES	GROSS CARRYING AMOUNT	ACCUMULA AMORTIZA

	(YEARS)		(IN THOUS
AMORTIZED INTANGIBLE ASSETS:			
Deferred financing costs	5.84	$ 1,113	$
Purchased software	1.92	1,481	
Customer relationship	4.46	1,230	
		$ 3,824	$ (

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following;

	JUNE 30, 2005	
	(IN THOUSANDS	
Accounts payable trade	$ 1,855	$
Accrued state sales tax	140	
Accrued interest	301	
Amount payable to Quisic shareholders	450	
Amounts related to acquisitions	311	
Accrued salaries and related benefits	296	
Amount payable to third party providers	1,117	
Amount payable to Interactive Alchemy	30	
Deferred rent liability	47	
Liabilities from discontinued operations	253	
Other	31	
Total accounts payable and accrued liabilities	$ 4,831	$

7. LONG-TERM DEBT

Long-term debt consisted of the following:

	JUNE 30, 2005	
	(IN THOUSANDS	
2002 Convertible redeemable subordinated notes	$ 5,625	$
2004 Senior unsecured promissory notes	3,187	
Shareholders' notes payable	235	
Notes payable	588	
	9,635	
Less: Current portion of long-term debt	(815)	
Discount	(1,257)	
Beneficial conversion feature	(743)	
Long-term debt, net of current portion	$ 6,820	$

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In March 2002, the Company completed a private placement offering (the "Convertible Note Offering") raising capital of $5,775,000. Under the terms of the Convertible Note Offering, the Company issued convertible redeemable subordinated notes and warrants to purchase 5,775,000 shares of the Company's common stock. These notes bear interest at the rate of 12% per annum and require quarterly interest payments, with the principal due at maturity on March 29, 2012. The note holders may convert the principal into shares of the Company's common stock at the fixed price of $1.00 per share. The Company may force conversion of these notes into shares of the Company's common stock at the fixed conversion price, if at any time the 20 trading day average closing price of the Company's common stock exceeds $3.00 per share. These notes are subordinated to any present or future senior indebtedness with no waiver required. Those warrants expired on March 29, 2005 without exercise. The exercise price of the warrants was $3.00 per share. The Company could have forced exercise of the warrants at the exercise price, if at any time the closing price of the Company's common stock equaled or exceeded $5.50 per share for 20 consecutive trading days. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: contractual and expected life of three years, volatility of 75%, dividend yield of 0%, and a risk-free rate of 3.87%. The fair value was then used to calculate a discount of $1,132,000, which is being amortized to interest expense over the ten-year term of the notes. Since the carrying value of the notes was less than the conversion value, a beneficial conversion feature of $1,132,000 was calculated and recorded as an additional discount to the notes and is being amortized as interest expense over the ten year term of the notes. Upon conversion of these notes, any remaining discount associated with the beneficial conversion feature will be expensed in full at the time of conversion. The common stock underlying these notes was registered with the SEC and may be sold if converted into common stock

pursuant to a resale prospectus dated May 24, 2004. During fiscal 2004, holders with a principal balance totaling $150,000 converted their notes into 150,000 shares of the Company's common stock at a price of $1.00 per share. On August 1, 2005, the Company executed definitive agreements that were dated to be effective July 31, 2005 with holders of a principal balance of $175,000 to convert their notes and accrued interest into 604,238 shares of the Company's common stock at a price of $.30 per shares.

In April of 2004, the Company completed a private placement offering with gross proceeds of $4.25 million that provided the Company $3.8 million of net proceeds. Under the terms of this offering, the Company issued $3,187,000 in unsecured senior notes and 1,634,550 shares of common stock of the Company. The senior notes were issued as a series of notes pursuant to a unit purchase and agency agreement. The senior notes are unsecured, non-convertible, and the purchasers received no warrants. The placement agent received a commission equal to 10% of the gross proceeds together with a warrant for the purchase of 163,455 shares of the Company's common stock with an exercise price equal to 120% of the price paid by investors. The senior notes bear interest at a rate of 10% per annum and accrued interest is due and payable on a quarterly basis beginning July 15, 2004, with principal due at maturity on July 15, 2007. The senior notes are redeemable by the Company at 100% of the principal value at any time after July 15, 2005. The notes and common stock were issued with a debt discount of $768,000. The fair value of the warrants was estimated and used to calculate a discount of $119,000 of which $68,000 was allocated to the notes and $51,000 was allocated to equity. The total discount allocated to the notes of $836,000 is being amortized to interest expense over the term of the notes which is approximately 39 months. The senior notes are unsecured obligations of the Company but are senior in right of payment to all existing and future indebtedness of the Company. Individuals and entities participating in this offering have the right to demand registration of the common stock issued there from upon written notice to the Company and also have piggyback registration rights should the company file a registration statement before the shares are otherwise registered. On August 2, 2005 the Company executed definitive agreements that were dated to be effective August 1, 2005 with holders of a principal balance totaling $225,000 to convert their senior notes and accrued interest into 903,205 shares of the Company's common stock at a price of $0.25 per share.

In connection with the Company's initial public offering (IPO) in March of 1998, the Company issued notes to certain shareholders who had provided capital prior to the IPO. These notes were due in April of 2005 and required quarterly payments of interest only at the rate of 10%. During the first quarter of fiscal 2006, many of the noteholders agreed to extend the maturity date and accept installment payments that are due during the year ended March 31, 2006. The outstanding principal balance on these notes is $235,000 as of June 30, 2005.

In connection with the Company's acquisition of Glyphics, the Company assumed $753,000 in loan obligations, the unpaid balance of which $587,000 at June 30, 2005 is currently due in the short term. The rates of interest on such notes range from 5.75% to 7.5% per annum. In June 2005, the Company extended the payment terms on one loan with a principal balance of $138,000 at June 30, 2005. The balance of the loan was due on July 29, 2005. The loan is guaranteed by two individuals, who were formerly owners of Glyphics, as well as by the Company. The first individual is an executive vice president as well as a shareholder of the Company and the second individual is a shareholder of the Company. In June 2005, in connection with the restructuring of the payments, the Company issued a warrant for 50,000 shares to the second individual with an exercise price of $.32. The warrant expires in June 2007. The fair value of the warrant of $6,500 was estimated using the Black-Scholes pricing model with the following assumptions: contractual and expected life of two years, volatility of 71%, dividend yield of 0%, and a risk-free rate of 3.6%.

The aggregate maturities of long-term debt excluding capital leases for each of the next five years subsequent to June 30, 2005 were as follows (IN THOUSANDS):

2006	$ 815
2007	7
2008	3,188
2009	--
2010	--
Thereafter	5,625
	$ 9,635

8. INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

The Company disclosed no tax benefit on its Condensed Consolidated Statement of Operations during the three months ended June 30, 2005 or 2004 because it concluded it is not likely it would be able to recognize the tax asset created due to the lack of operating history of its Web conferencing and audio conferencing business strategy. At June 30, 2005 and March 31, 2005, the Company has net deferred tax assets of $12.1 million and $11.7 million, respectively, with corresponding valuation allowances. The Company's tax assets are scheduled to expire over a period of five to thirteen years.

9. STOCK OPTION PLANS AND WARRANTS

The Company grants stock options under its 1997 Stock Compensation Plan (the "Plan"). The Company recognizes stock-based compensation issued to employees at the intrinsic value between the exercise price of options granted and the fair value of stock for which the options may be exercised. However, pro forma disclosures as if the Company recognized stock-based compensation at the fair value of the options themselves are presented below.

Under the Plan, as amended, the Company is authorized to issue 3,500,000 shares of common stock pursuant to "Awards" granted to officers and key employees in the form of stock options.

There were 2,616,483 options granted under the Plan, at June 30, 2005. The Compensation Committee of the Board of Directors administers the Plan. Stock options granted to employees have a contractual term of 10 years (subject to earlier termination in certain events) and have an exercise price no less than the fair market value of the Company's common stock on the date grant. The options vest at varying rates over a one to five year period.

Following is a summary of the status of the Company's stock options as of June 30, 2005:

	NUMBER OF SHARES UNDERLYING OPTIONS	WEIGHTED AVERAGE EXERCISE PRICES	WEIGHT FAIR- OPTION
Outstanding at March 31, 2005	2,438,018	$ 1.32	
Granted	250,000	0.38	$
Exercised	--	--	
Forfeited	(71,535)	0.82	
Expired	--	--	
Outstanding at June 30, 2005	2,616,483	$ 1.24	

The following table summarizes information about stock options outstanding at June 30, 2005:

OPTIONS OUTSTANDING			OPTIONS EXERC
NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES

$ 0.01 - $ 0.99	1,927,973	$ 0.51	7.21	1,248,742
$ 1.00 - $ 1.99	111,125	$ 1.57	5.74	96,125
$ 2.00 - $ 2.99	430,000	$ 2.22	4.03	430,000
$ 3.00 - $ 8.50	147,385	$ 7.13	3.46	147,385
	2,616,483			1,922,252

The following table summarizes information about stock purchase warrants outstanding at June 30, 2005:

	WARRANTS OUTSTANDING			WARRANTS EXERC
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES
$ 0.32 - $ 0.32	50,000	$ 0.32	1.94	50,000
$ 0.40 - $ 0.40	250,000	$ 0.40	1.39	250,000
$ 0.42 - $ 0.42	543,182	$ 0.42	6.14	543,182
$ 0.44 - $ 0.44	132,972	$ 0.44	6.20	132,972
$ 0.50 - $ 0.50	25,000	$ 0.50	0.50	25,000
$ 0.55 - $ 0.55	50,000	$ 0.55	1.51	50,000
$ 0.78 - $ 0.78	163,455	$ 0.78	1.80	163,455
$ 1.50 - $ 1.50	921,510	$ 1.50	2.14	921,510
	2,136,119			2,136,119

In December 2001, the Company, under the initiative of the Compensation Committee with the approval of the Board of Directors, issued its Chief Executive Officer an incentive stock grant under the 1997 Stock Compensation Plan of 450,000 restricted shares of the Company's common stock as a means to retain and incentivize the Chief Executive Officer. The shares 100% vest after 10 years from the date of grant. The shares were valued at $405,000 based on the closing price of the stock on the date of grant, which is recorded as compensation expense ratably over the vesting period. The vesting of the incentive shares accelerates based on the Company's share price as follows:

PERFORMANCE CRITERIA	SHARES VEST
Share price trades for $4.50 per share for 20 consecutive days	150,000 sha
Share price trades for $8.50 per share for 20 consecutive days	150,000 sha
Share price trades for $12.50 per share for 20 consecutive days	150,000 sha

In connection with the restricted stock grant, the Company loaned the chief executive officer $179,000 to fund the immediate tax consequences of the grant. The Company recognized a $179,000 charge to income at the date of grant.

WARRANTS

On November 19, 2003, the Company issued a warrant to purchase 250,000 shares of common stock to an advisor of the Company in exchange for certain advisory and consulting services pursuant to a written advisory agreement that will be provided to the Company over a three-year contractual period. The warrants are exercisable for shares of the Company's common stock at a price of $0.40. The warrants contain a provision that prohibited the delivery of shares even if exercised until after February 5, 2004. The warrants are currently treated as a variable plan grant; accordingly, the warrants will be revalued at each quarter end and the portion related to the cumulative expired services period less prior charges recorded will be recorded as a charge to expense during the period. The warrants were valued using the Black-Scholes model to calculate a fair value of $0.73 per share at March 31, 2004. A portion of the fair value totaling $20,000 was recognized for fiscal 2004. During fiscal 2005, the remaining balance of the warrants was expensed for $90,000.

10. COMMITMENTS AND CONTINGENCIES

The Company is subject to various commitments and contingencies as described in Note 14 to the condensed consolidated financial statements in the Company's Annual Report on Form 10-K as of and for the year ended March 31, 2005. During the three-month period ended June 30, 2005, the following changes occurred with respect to certain of the Company's commitments and contingencies:

ROYALTY AGREEMENTS

In conjunction with the acquisition of certain assets from Mentergy, Inc. ("Mentergy"), the Company agreed to provide a royalty earn-out payment due upon sales of its Web conferencing products. The royalty earn-out was originally equal to 20% for all revenues collected from the sale or license of that Web conferencing software (originally named LearnLinc) over a three-year period beginning with the closing date of November 4, 2002, with the first $600,000 of collected revenues not subject to the royalty, and the maximum amount being $5,000,000. After negotiating a settlement with one of the original participants in the Mentergy transaction during fiscal 2005, the royalty has been reduced to 18.7%. The Company accounts for any such amounts collected as additional purchase consideration in accordance with EITF 95-8: ACCOUNTING FOR CONTINGENT CONSIDERATION PAID TO THE SHAREHOLDERS OF AN ACQUIRED ENTERPRISE IN A PURCHASE BUSINESS COMBINATION at the time such amounts are accrued as revenue. The Company has accrued Mentergy royalties totaling $1,015,000 and $872,000 as of June 30, 2005 and March 31, 2005, respectively. Mentergy and the Company are in the process of negotiating payment terms that would provide for level installment payments extending until November of 2006 with a balloon payment at the end of that term.

EMPLOYMENT AGREEMENTS

The Company entered into an employment agreement with Mr. David Iannini with an effective date of March 14, 2005 as its Chief Financial Officer. Mr. Iannini's employment with the Company ended on August 9, 2005 and his employment agreement likewise terminated on that date without the payment of severance or other compensation as a result of the termination and all options previously issued to Mr. Iannini expired without exercise.

LITIGATION

On June 14, 2002, the Company acquired the assets of Quisic. Subsequently, on November 4, 2002, two former employees of Quisic (Mr. Weathersby their former CEO and Mr. Alper their former CIO), filed a lawsuit in the Superior Court of the State of California styled George B. Weathersby, et al. vs. Quisic, et al. claiming damages against Quisic and the Board of Directors of Quisic arising from their employment termination by the Quisic Board. The Company was also added as a third party defendant with an allegation of successor liability, but only to the extent that Quisic is found liable, and then only to the extent the plaintiffs prove their successor liability claim against the Company. Subsequent to the defendants' answers being filed, the trial court ordered that an arbitration of the merits be held, which is currently pending. The claims of Alper and Weathersby were being arbitrated separately. As of the date of this report, the arbitrator dismissed all of Alper's claims against the defendants, except for the only remaining defamation claim. The Company is not liable for the defamation claim and therefore has no further liability to Alper. The Company only acquired certain assets of Quisic in an asset purchase transaction. Based upon the facts and circumstances known, the Company believes that the plaintiffs' claims are without merit, and furthermore, that the Company is not the successor of Quisic, and therefore the Company intends to vigorously defend this aspect of the lawsuit. While in the opinion of management, resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur that awarded to the Plaintiffs against defendant Quisic large sums, and then the court determined that the Company is a successor to Quisic, then the impact is likely to be material to the Company.

11. BUSINESS COMBINATIONS

GLYPHICS CORPORATION

The Company executed an agreement to acquire substantially all of the assets of and assume certain liabilities of Glyphics, a Utah based, private company. The acquisition had a stated effective date of June 1, 2004 and was fully consummated on June 14, 2004. The purchase price of $5.229 million was based on a multiple of the Glyphics' 2003 annual audio conferencing business revenues (as defined in the asset purchase agreement). The purchase price was paid with the assumption of specific liabilities, with the balance paid using its common stock at the fixed price of $1.05 per share.

In exchange for the assets received, the Company assumed $2.466 million in debt and issued 2.8 million shares of its common stock at the date of acquisition. An additional 704,839 shares of the Company's common stock is currently being held in escrow and is subject to the claims of the Company for: (1) the amount, if any, that the audited audio conferencing business revenues

(as defined in the asset purchase agreement) earned by the Company during the 12 months after the closing date are less than the audited audio conferencing business revenues (as defined in the asset purchase agreement) recorded by Glyphics during the 12 months ending December 31, 2003, (2) the representations and warranties made by Glyphics' and its shareholders in the asset purchase agreement, and (3) the amount if any that the liabilities accrued or paid by the Company are in excess of those specifically scheduled and assumed as part of the asset purchase agreement. Those contingent escrow shares are contractually required to be returned to the Company by the escrow agent in the event that those revenue performance targets and contingent liability requirements are not achieved. As of March 31, 2005, the Company had accrued certain liabilities in excess of those scheduled and therefore, may be making a claim against those shares. As of June 30, 2005, the performance revenue target had been met.

The Glyphics' shareholders receiving its common stock as a result of the transaction have the right to demand registration of their common stock upon written notice, one year from the date of the transaction, to the Company and also have piggyback registration rights should the Company file a registration statement before the shares are otherwise registered. Operating results associated with audio conferencing operations are included as of June 1, 2004. The purchase price recorded was calculated as follows:

	AMOUNT
Issuance of iLinc's common stock (valued at $0.98 per share using the five day average closing price)	$ 2,763
Assumed liabilities..	2,466
Total purchase price..	$ 5,229

The purchase price may change due to the ultimate resolution of purchase agreement contingencies and the potential recoveries against the shares held in escrow, if any. At June 30, 2005, the Company believes it will recover approximately 369,000 shares held in escrow due to the assumption of additional liabilities of $351,000 greater than scheduled in the purchase agreement.

The total purchase price was allocated to assets acquired, in accordance with SFAS No. 141 "Business Combinations," based upon estimated fair market values as determined by an appraisal report obtained from an independent appraisal firm. The excess purchase price over the estimated fair market value of the tangible and intangible assets acquired was allocated to goodwill. As this transaction is intended to qualify as a tax-free acquisition, the tax bases of the acquired assets remain unchanged. As a result, a deferred tax liability of $1,132,000 has been established in an amount equal to the Company's statutory tax rate multiplied by the difference between the allocated book value of acquired non-goodwill assets and the tax bases of those assets. This increase to deferred tax liability resulted in a corresponding increase to the acquired goodwill. However, due to the presence of a valuation allowance against the net deferred tax asset, a second entry was then recorded to report the impact of the necessary decrease to the valuation allowance, with the offset being a reduction in acquired goodwill. The purchase price may change due to the ultimate resolution of charges against the escrow account, if any. The net result of these entries was to increase the deferred tax liability and decrease the valuation allowance by the same amount.

The purchase price of Glyphics has been allocated as follows:

	PURCHASE PRICE ALLOCATION (IN THOUSANDS)
Current assets..	$ 618
Property and equipment..	1,609
Goodwill	998

Identifiable intangible assets	2,004
Current liabilities	(1,356)
Notes payable	(753)
Capital leases	(357)
Common stock	(3)
Additional paid-in capital	(2,760)
Total	$ --

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Operating results of Glyphics are included in the accompanying statement of operations for the three- month period ending June 30, 2005 and for one month in the three-month period ending June 30, 2004. The following unaudited pro forma summary of condensed financial information presents the Company's combined results of operations as if the acquisition of Glyphics had occurred at the beginning of the three months ended June 30, 2004, after including the impact of certain adjustments including: (i) elimination of sales between the two companies and (ii) increase in amortization of the identifiable intangible assets and an increase in depreciation expense recorded as part of the acquisition.

	THREE MONTHS JUNE 30, 20
	PRO FORMA (IN THOUSAN EXCEPT PER S DATA)
Revenues	$ 2
Loss from continuing operations	$ (1
Net loss from continuing operations	$ (1
Loss per basic and diluted share from continuing operations	(
Weighted average shares outstanding:	
Basic and diluted	22

The pro forma financial information presented does not purport to indicate what the combined results of operations would have been had the combination occurred at the beginning of the periods presented or the results of operations that may be obtained in the future.

12. DISCONTINUED OPERATIONS

Effective January 1, 2004, the Company discontinued its practice management services segment. In accordance with SFAS 144 "ACCOUNTING FOR IMPAIRMENT ON DISPOSAL OF LONG-LIVED ASSETS," the Company has restated its historical results to reflect its practice management service business segment as a discontinued operation.

A summary of the results from discontinued operations for the three months ending June 30, 2005 and 2004 are as follows:

	THRE
	200
Net revenue	$
Operating expenses	
Income (loss) from operations	
Interest expense	
Interest income	
Gain on termination of service agreements with Affiliated Practices	
Gain on debt forgiveness	
Loss on settlement of capital lease	
Tax expense	
Net income (loss) from discontinued operations	$

There were no assets or liabilities related to the Company's discontinued operations on the books that were not fully reserved as of June 30, 2005. Liabilities of $253,000 and $263,000 related to discontinued operations were included in Accounts Payable and Accrued Liabilities at June 30, 2005 and March 31, 2005, respectively.

13. RELATED PARTY TRANSACTIONS

On August 1, 2005, the Company exchanged a convertible promissory note that had been issued in March of 2002 to Peldawn, LLC, of which Mr. Dan Robinson, a member of the Company's Board of Directors, is a partner. The note had an original principal balance of $25,000 and was originally was convertible at $1.00 per share. As part of the Company's plan to decrease debt and increase shareholder's equity, the note including principal and accrued interest was exchanged using a price of $0.30 per share, a price above the fair market value of the Company's common stock on the date of conversion, into 84,183 shares of the Company's common stock.

14. SUBSEQUENT EVENTS

On August 1, 2005, the Company executed definitive agreements that were dated to be effective July 31, 2005 to issue 604,238 unregistered shares of its common stock, par value $0.001, in private transactions that were exempt from registration under Section 4(2) of the Exchange Act of 1934 and Regulation D, to two accredited investors who were holders of the Company's unsecured convertible promissory notes. Under these agreements, common stock was issued in exchange for their outstanding promissory note with a principal balance of $175,000, together with accrued but unpaid interest. The notes had been issued in March of 2002 as a part of a capital raise, and under their original terms, were due in 2012, paid interest only at the rate of 12% until maturity. The notes and accrued interest were converted into common stock using the fixed price of $0.30 per share.

On August 2, 2005, the Company executed definitive agreements that were dated to be effective August 1, 2005 to issue 903,205 unregistered shares of its common stock, par value $0.001, in private transactions that were exempt from registration under Section 4(2) of the Exchange Act of 1934 and Regulation D, to two accredited investors who were holders of the Company's unsecured senior promissory notes. Under these agreements, the common stock was issued in exchange for their outstanding promissory note with a principal balance of $225,000, together with accrued but unpaid interest. The notes had been issued in April of 2004 as a part of a capital raise, and under their original terms, were due in 2007, paid interest only at the rate of 10% until maturity. The notes and accrued interest were converted into common stock using the fixed price of $0.25 per share.

As a part of the Glyphics acquisition, the Company assumed a loan with Zion's Bank with a total principal and interest balance on June 30, 2005 of $137,000. On July 29, 2005 the loan matured. A payment of $40,000 was made on August 9, 2005, and an agreement was reached between the parties to extend the note through August 31, 2005.

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

STATEMENTS CONTAINED IN THIS ANNUAL REPORT ON FORM 10-K THAT INVOLVE WORDS LIKE "ANTICIPATES," "EXPECTS," "INTENDS," "PLANS," "BELIEVES," "SEEKS," "ESTIMATES," AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, THE SECURITIES ACT OF 1933, AS AMENDED, AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH FORWARD-LOOKING STATEMENTS INVOLVE CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANTICIPATED RESULTS. THESE RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO, OUR DEPENDENCE ON OUR PRODUCTS OR SERVICES, MARKET DEMAND FOR OUR PRODUCTS AND SERVICES, OUR ABILITY TO ATTRACT AND RETAIN CUSTOMERS AND CHANNEL PARTNERS, OUR ABILITY TO EXPAND OUR TECHNOLOGICAL INFRASTRUCTURE TO MEET THE DEMAND FROM OUR CUSTOMERS, OUR ABILITY TO RECRUIT AND RETAIN QUALIFIED EMPLOYEES, THE ABILITY OF CHANNEL PARTNERS TO SUCCESSFULLY RESELL OUR SERVICES, THE STATUS OF THE OVERALL ECONOMY, THE STRENGTH OF COMPETITIVE OFFERINGS, THE PRICING PRESSURES CREATED BY MARKET FORCES, AND THE OTHER RISKS DISCUSSED HEREIN. ALL FORWARD-LOOKING STATEMENTS INCLUDED IN THIS REPORT ARE BASED ON INFORMATION AVAILABLE TO US AS OF THE DATE HEREOF. WE EXPRESSLY DISCLAIM ANY OBLIGATION OR UNDERTAKING TO RELEASE PUBLICLY ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN, TO REFLECT ANY CHANGE IN OUR EXPECTATIONS OR IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED. OUR REPORTS ARE AVAILABLE FREE OF CHARGE AS SOON AS REASONABLY PRACTICABLE AFTER WE FILE THEM WITH THE SEC AND MAY BE OBTAINED THROUGH OUR WEB SITE.

OVERVIEW

Headquartered in Phoenix, Arizona, iLinc Communications, Inc. is a leading provider of Web conferencing, audio conferencing and collaboration software and services. Our four-product iLinc Suite, led by LearnLinc (which also includes MeetingLinc, ConferenceLinc, and SupportLinc), is an award winning virtual classroom, Web conferencing and collaboration suite of software. With our Web collaboration, conferencing and virtual classroom products, we provide simple, reliable, and cost-effective tools for remote presentations, meetings and online events. Our software is based on a proprietary architecture and code that finds its origins as far back as 1994, in what we believe to be the beginnings of the Web collaboration industry. Versions of the iLinc Suite have been translated into six languages, and it is currently available in version 7.7. Our customers may choose from several different pricing options for the iLinc Suite, and may receive our products on a stand-alone basis or integrated with one or a number of our other award-winning products, depending upon their needs. Uses for our four-product suite of Web collaboration software include online business meetings, sales presentations, employee training sessions, product demonstrations, and technical support assistance. We sell our software solutions to large and medium-sized corporations inside and outside of the Fortune 1000, targeting certain vertical markets. We market our products using a direct sales force and a distribution channel consisting of agents and value added resellers. We allow customers to choose between purchasing a perpetual license or subscribing to a term license to our products, providing for flexibility in pricing and payment methods.

PRODUCTS AND SERVICES

WEB CONFERENCING AND WEB COLLABORATION

The iLinc Suite(TM) is a four-product suite of software that addresses the four most common business collaboration needs.

LearnLinc(TM) is an Internet-based software that is designed for training and education of remote students. With LearnLinc, instructors and students can collaborate and learn remotely providing an enhanced learning environment that replicates and surpasses traditional instructor-led classes. Instructors can create courses and classes, add varied agenda items, enroll students, deliver live instruction, and deliver content that includes audio, video, and interactive multimedia. In combination with TestLinc(TM), LearnLinc permits users to administer comprehensive tests, organize multiple simultaneous breakout sessions, and record, edit, play back, and archive entire sessions for future use.

MeetingLinc(TM) is an online collaboration software designed to facilitate the sharing of documents, PowerPoint(TM) presentations, graphics, and applications between meeting participants without leaving their desks. MeetingLinc allows business professionals, government employees, and educators to communicate more effectively and economically through interactive online meetings using Voice-over IP technology to avoid the expense of travel and long

distance charges. MeetingLinc allows remote participants to: give presentations, demonstrate their products and services, annotate on virtual whiteboards, edit documents simultaneously, and take meeting participants on a Web tour. Like all of the Web collaboration products in the Suite, MeetingLinc includes integrated voice and video conferencing services.

ConferenceLinc(TM) is a presentation software designed to deliver the message in a one-to-many format providing professional management of Web conferencing events. ConferenceLinc manages events such as earning announcements, press briefings, new product announcements, corporate internal mass communications and external marketing events. ConferenceLinc is built on the MeetingLinc software platform and code to combine the best interactive features with an easy-to-use interface providing meaningful and measurable results to presenters and participants alike. Its design includes features that take the hassle out of planning and supporting a hosted Web seminar. ConferenceLinc includes automatic email invitations, "one-click join" capabilities, online confirmations, update notifications, and customized attendee registration. With ConferenceLinc, presenters may not only present content, but may also gain audience feedback using real-time polling, live chat, question and answer sessions, and post-event assessments. The entire presentation is easily recordable for viewing offline and review after the show with the recorder capturing the content and the audio, video, and participant feedback.

SupportLinc(TM) is an online technical support and customer sales support software designed to give customer service organizations the ability to provide remote hands-on support for products, systems, or software applications. SupportLinc manages the support call volume and enhances the effectiveness of traditional telephone-based customer support systems. SupportLinc's custom interface is designed to be simple to use so as to improve the interaction and level of support for both customers and their technical support agents.

Our Web collaboration suite of products may be sold as a customer-hosted installation (instead of a concurrent user license), allowing the customer to purchase the entire suite for organization-wide use on an unlimited connection basis. The enterprise edition provides for unlimited use for an unlimited number of users, and includes our entire four-product suite of Web collaboration products. Corporations, educational institutions, and governments may purchase or lease any one product or a combination of the products to suit their individual needs. Because our Web collaboration products are available for license as an iLinc hosted (i.e. in an Application Service Provider or "ASP") solution or as a customer hosted behind-the-firewall solution, customers can choose the model that works best for their budget and IT capabilities. If a customer purchases a perpetual license for the product, it also may purchase a customer support and maintenance agreement, varying in term from one to five years and typically costing 15% to 18% of the license fee for the product. If a customer chooses the iLinc-hosted solution, then the customer is charged a hosting fee ranging from 5% to 10%.

AUDIO CONFERENCING

Through its acquisition of Glyphics that was effective June 1, 2004, the Company now also delivers comprehensive audio conferencing solutions that help businesses provide virtual meetings, corporate events, distance learning programs, and daily conference calls. Its audio conferencing offering includes a wide array of products:

- AUDIO ON-DEMAND (NO RESERVATIONS NEEDED): The pre-established calling accounts for each user, you can create or participate in conference calls with no advance notice, 24/7;

- RESERVED AUTOMATED: The solution for recurring calls, each participant has a permanent number and passcode;

- OPERATOR ASSISTED: For important calls, this service includes an iLinc conference operator to host, monitor, and coordinate the call; and

- ONLINE SEMINARS: Support online Web presentation with high-quality audio from iLinc.

Customers may purchase our audio conferencing products and services without an annual contract commitment on a monthly recurring usage basis, and often subscribe for a fixed per-minute rate.

OTHER PRODUCTS AND SERVICES

In addition to the iLinc Suite of products and services, we offer to our customers an array of e-Learning and training products and services. We offer training software products that like iLinc, promote online collaboration with products that integrate with our LearnLinc software. These include: TestLinc which is an assessment and quizzing tool that allows for formal testing and evaluation of students and i-Canvas(TM) which is a training content development software that allows non-technical training professionals to create Web-based training courses without programming. i-Canvas is sold on an individual user perpetual license basis. We offer custom content development services through a subcontractor relationship. We also offer a library of online courses focused upon the training of executives on essential business topics. Our off-the-shelf online library of content includes an online mini-MBA program co-developed with the Tuck School of Business at Dartmouth College.

INDUSTRY TRENDS

Industry analyst Frost and Sullivan in their recent World Web Conferencing Market report separates the Web Conferencing vendor community into three distinct groups: Total Service Providers ("TSPs"), Web Conferencing Software providers, and resellers of TSP and software providers. The difference between TSPs and software providers is that the TSPs only offer Web conferencing as an ASP service. Software providers offer Web conferencing as solutions that can be purchased and owned by customers (whether the software is installed internally or purchased by customers and hosted by the provider). iLinc competes in the software provider market.

Although most of our major competitors compete only in the TSP market (including WebEx, Live Meeting, and Raindance), the Web conferencing software market is the faster growing segment, representing about $227 million of the current Web conferencing market. This market's projected growth is about 40% Compound Annual Growth Rate ("CAGR") between 2002 and 2010 (as compared with the service provider market which is growing about 22% CAGR for the same time period) and is forecast to outgrow the service provider market by the end of 2009.

As with many technologies that achieve mainstream success, the decision to purchase Web conferencing is shifting from individual departments to IT. Several factors are driving this shift, including the need for organizations to centralize on one vendor instead of having several different vendors for Web or audio conferencing services for different parts of the organization. The requirements of the IT organization are often distinctly different from the purchase requirements of a department such as sales or marketing. To successfully sell to the market as it continues to mature, vendors need to be able to provide solutions that can scale and can meet customer needs at any point of their adoption cycle-whether their specific organization is just beginning to use Web conferencing in one part of the organization or if they are ready to deploy an enterprise-wide solution.

Another important trend in the industry is the convergence of communication technologies such as audio and Web conferencing and the increase in demand for a single source for both of these capabilities. Frost and Sullivan has noted in a separate report on audio conferencing that the demand for integrated audio, Web, and video conferencing solutions continues to surge as end user needs for easy-to-use, single-source solutions swell. Developing and providing a truly converged user environment and experience, including the integration of audio, Web and video conferencing technologies is essential.

With the addition of audio conferencing capabilities from our acquisition of Glyphic Communications, we have been able to provide a single source for deeply integrated Web, audio, video as well as Voice-over IP. Increasingly, the option a vendor chooses for Web conferencing determines their selection for audio conferencing. iLinc has already made significant progress in selling audio conferencing to the iLinc customer base and we actively cross sell all of our products and services to all customers. We believe that another benefit of the integrated conferencing approach is customer retention. According to the same Frost and Sullivan report, when Web conferencing and audio conferencing are sold together as an integrated package there is a significant increase in retention of the audio conferencing service. We are continuing to create incentives for our audio customers to be both Web and audio customers to drive this retention.

MARKET POSITION - DIFFERENTIATORS

We view our position in the market as the best solution for the enterprise-wide buyer that has already adopted Web conferencing, as well as organizations that believe their usage of Web conferencing will grow quickly. As mentioned earlier, a growing number of these organizations are using four or more different vendors for Web or audio conferencing services and, therefore, not realizing the economies of scale that consolidating to one or two vendors for these services can provide. There are also other important considerations revolving around Web conferencing such as security and bandwidth availability that are forcing the buying decision for Web and audio conferencing out of the business units and into the IT department. We believe that our solution uniquely maps to critical IT requirements among these mature buyers in five important areas.

First, we offer WEB CONFERENCING SOFTWARE WITH FLEXIBLE LICENSING OPTIONS that allows organizations to pay a one-time license fee to install the software inside of their environment, or to purchase perpetual licenses and have those licenses hosted in our co-location facility. We find this flexibility to be an important differentiator to address the needs of customers that are ready to make an enterprise-wide decision as well as customers that think their usage may grow throughout their organization. This licensing structure also enables us to maintain a consistent revenue stream of smaller sized purchases while also winning larger enterprise-wide deals that help substantially increase revenue growth.

Second, as noted earlier, we provide a COMPLETELY INTEGRATED WEB, AUDIO, VIDEO AND VOICE-OVER IP CONFERENCING SOLUTION with what we believe to be a rich-feature set. According to Web conferencing analysts, as the industry moves beyond the boundaries imposed by the term "Web conferencing" to more of a rich media communications environment, those vendors that are ahead of the curve in terms of features and functionality will be around for the long-term survival. Vendors offering a "me too" solution are not expected to be active long-term competitors and are expected to disappear in the form of consolidation, acquisitions, or all together exit the market because of shrinking profits.

Third, we offer the HIGHEST LEVEL OF DATA SECURITY commercially available. We believe that we are the only Web conferencing provider that offers a customer-hosted solution with a purchase license option and true point-to-point security with our unique combination of Advanced Encryption Standard ("AES") and secure socket layer (SSL). All information within a session can be transmitted between meeting attendees securely without any reduction in performance. This aspect of our software has been extremely attractive to government, military, and financial organizations as well as to the companies that supply to these entities. We also believe that this solution combined with other aspects of our software enables us to be a more reliable solution than our Web conferencing software competitors. Our customers report that they are able to get more people into Web conferencing session regardless of whether they are connecting users from directly inside of a network or outside of a network. Importantly, the iLinc software also works in locked-down environment and is very successful getting through firewalls.

Fourth, our solution is SUITABLE AND SCALABLE FOR ENTERPRISE-WIDE DEPLOYMENT. The iLinc Suite contains four modes that address the most common needs for business collaboration within the enterprise. We offer virtual classroom software with our LearnLinc mode, presentation and sales demonstration capabilities with MeetingLinc, customer support with SupportLinc, and a mode for Web casts and marketing events with ConferenceLinc. Each of these modes shares a common interface enabling users of one mode to easily understand any of our other modes. This reduces the learning curve for Web conferencing enterprise-wide roll out and we believe increases adoption success. All users can have access to all four modes of the suite. This is an important differentiation because our competition typically charges separate licensing fees for the use of separate modes. Giving users access to the full suite supports the natural migration of Web conferencing usage from department to department. Each of the modes has functionality built specifically for a particular type of activity. The most comprehensive feature set is included in LearnLinc, which we believe to be one the best virtual classroom training tools on the market. LearnLinc defeated every other major Web conferencing provider at the only synchronous software shootout ever held at the Online Learning Expo. At this event, training professional selected LearnLinc as the first place winner when judged on overall capabilities and ease-of-use. Industry analyst Bersin and Associated also recently noted LearnLinc as "The first virtual classroom technology ever developed and still a technology leader today" in a May 2005 study.

Fifth, we provide what we believe to be an EXCEPTIONAL "TOTAL COST OF OWNERSHIP" VALUE. Our software and services are competitively priced, but unlike our competitors, a customer's installation of our product is a very short and non-labor intensive process. Maintenance of our software also requires minimal attention from an IT perspective. Most of our Web conferencing software competitors require very complex and costly implementations.

We believe that all of these factors make our solution compelling to organizations that have already adopted the practice of Web conferencing as a best practice as well as companies that are just starting to use Web conferencing, but anticipate that their usage will grow quickly. We recognize that in order to grow our market share we need to develop products that are easy to implement and that scale with our customer needs.

RESULTS OF OPERATIONS

We executed an agreement to acquire substantially all of the assets of and assume certain liabilities of Glyphics Communications, Inc., a Utah based private company. The acquisition had a stated effective date of June 1, 2004 and was fully consummated on June 14, 2004. The Company plans to continue to pursue the business formerly conducted by the seller on an integrated basis with its existing Web conferencing products. (See also Note 11 above and Form 8-K/A on file related to the Glyphics transaction dated August 13, 2004.)

The operations of the Company involve many risks, which, even through a combination of experience, knowledge and careful evaluation, may not be overcome. The Company also faces intense competition from other web conferencing and audio conferencing providers. Many of our existing competitors have longer operating histories and significantly greater financial resources than we do, and therefore may be able to more quickly respond to changing opportunities or customer requirements. New competitors are also likely to enter this market in the future due to the lack of significant barrier to entry in the market share. See "Additional Risk Factors That May Affect Our Operating Results and The Market Price of Our Common Stock."

REVENUES FROM CONTINUING OPERATIONS

Total revenues generated from continuing operations for the three months ended June 30, 2005 and June 30, 2004 were $2.7 million and $2.0 million respectively, an overall increase of approximately $703,000 resulting from a decrease of $367,000 in license revenues and increases of $990,000 in software and audio services and $80,000 in service and maintenance revenues. The overall increase is primarily the result of the inclusion of a full quarter of audio services revenue from the Glyphics acquisition in the three months ended June 30, 2005 compared to one month of audio services revenue in the three months ended June 30, 2004.

COST OF REVENUES FROM CONTINUING OPERATIONS

Cost of license revenue is driven by the number of licenses sold. It consists of royalty fees paid to third-parties on sale of certain product licenses and costs for fulfillment and materials. Cost of license revenues for the three months ended June 30, 2005 and June 30, 2004 were $32,000 and $42,000 respectively, a decrease of $10,000. The decrease is related to the decrease in royalty bearing product license sales in the three months ended June 30, 2005 as compared to June 30, 2004.

Cost of software and audio services revenue include salaries and related expenses for our ASP, hosted and audio services organizations, an overhead allocation consisting primarily of a portion of our facilities, communications and depreciation expenses that are attributable to providing these services, an allocation of technical support costs attributable to providing support for these services and direct costs related to our ASP, hosting and audio services offerings. Cost of software and audio services for the three months ended June 30, 2005 and June 30, 2004 were $1.1 million and $523,000, respectively, an increase of approximately $560,000. This increase is primarily a result of including the Glyphics audio business for a full quarter in the three months ended June 30, 2005 compared to one month in the three months ended June 30, 2004.

Cost of maintenance and professional services revenue include an allocation of technical support costs related to the services, an overhead allocation consisting primarily of a portion of our facilities costs, communications and depreciation expenses that is attributable to providing these services and third party costs related to our custom content revenue. Cost of maintenance and professional services for the three months ended June 30, 2005 and June 30, 2004 was constant at $113,000 for each quarter.

Amortization of acquired developed technology consists of amortization of acquired software technology from the Mentergy, Glyphics, and Quisic acquisitions. Amortization of acquired technology for the three months ended June 30, 2005 and June 30, 2004 was $119,000 and $77,000, respectively, an increase of $42,000 which is related primarily to the amortization of the Glyphics technology.

OPERATING EXPENSES FROM CONTINUING OPERATIONS

Operating expenses consist of research and development, sales and marketing, and general and administrative expenses. The Company incurred operating expenses from continuing operations of $1.8 million for the three months ended June 30, 2005, a decrease of $285,000 from $2.1 million for the three months ended June 30, 2004.

Research and development expenses represent expenses incurred in connection with the provision of e-learning services, development of new products and new product versions and consist primarily of salaries and benefits, communication equipment and supplies. Research and development expenses from continuing operations for the three months ended June 30, 2005 and June 30, 2004 were $358,000 and $331,000, respectively, an increase of $27,000. The increase is primarily a result of an increase in salaries, benefits, contractual labor, and overhead expenses of $80,000 due to the inclusion of a full quarter of Glyphics expenses in the three months ended June 30, 2005 compared to one month included in the three months ended June 30, 2004. The increase in salaries, benefits, contractual labor, and overhead expenses is partially offset by a decrease in telephone and Internet expenses of $45,000 related to the Glyphics acquisition and a decrease in travel and entertainment expenses of $11,000.

Sales and marketing expenses consist primarily of sales and marketing salaries and benefits, travel, advertising, and other marketing literature. Sales and marketing expenses from continuing operations were $785,000 and $1.0 million for the three months ended June 30, 2005 and June 30, 2004, respectively, a decrease of approximately $237,000. The decrease is primarily the result of decreases in salaries and related benefits of $113,000 due to a decrease of seven full time sales employees in the quarter ended June 30, 2005, a decrease of $81,000 in marketing expense due to a reduction in the use of outside marketing firms in the quarter ended June 30, 2005, a decrease of $50,000 in recruiting fees in the quarter ended June 30, 2005, and a decrease of $29,000 in travel and entertainment expenses, partially offset by an increase of $30,000 in amortization of customer sales lists from the acquisition of Glyphics in June 2004.

General and administrative expenses consist of the corporate expenses of the Company. These corporate expenses include salaries and benefits of executive, finance and administrative personnel, rent, bad debt expense, professional services, travel, office costs and other general corporate expenses. During the three months ended June 30, 2005 and June 30, 2004, general and administrative expenses from continuing operations were $641,000 and $716,000, respectively, a decrease of $75,000. The decrease in general and administrative expenses was primarily due to a decrease in accounting fees of $85,000, a decrease in investor relations expenses of $38,000 and a decrease in office expenses of $30,000, offset by an increase in legal expenses of $31,000, an increase in consulting fees of $25,000, and an increase in bad debt expenses of $22,000.

INTEREST EXPENSE FROM CONTINUING OPERATIONS

Interest expense from continuing operations of $431,000 for the three months ended June 30, 2005 decreased by $202,000 from $633,000 for the three months ended June 30, 2004. The decrease was primarily due to non-cash interest expenses of $192,000 relating to debt and equity conversions of convertible promissory notes incurred in the three months ended June 30, 2004.

GAIN ON SETTLEMENT OF DEBT AND OTHER OBLIGATIONS FROM CONTINUING OPERATIONS/LOSS ON SETTLEMENT OF NOTE RECEIVABLE

During the three months ended June 30, 2005, the Company recognized a loss of $7,500 relating to a settlement of note receivables. On June 27, 2005, the Company received a discounted payment that extinguished its only note receivable that had a principal balance of $25,000 by the receipt of $17,500 and the recording of a loss on the settlement of $7,500.

During the three months ended June 30, 2004, the Company recognized a gain of $8,000 relating to a lease settlement. As part of the acquisition of LearnLinc from Mentergy in November of 2002, the Company assumed a lease for computer equipment of $30,500. On June 15, 2004, the Company was notified by the lessor that all claims and amounts due were to be settled for a final amount due of $22,500.

INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

The Company disclosed no tax benefit on its Condenses Consolidated Statement of Operations during the three months ended June 30, 2005 or 2004 because it concluded it is not likely it would be able to recognize the tax asset created due to the lack of operating history of its Web conferencing and audio conferencing business strategy. At June 30, 2005 and March 31, 2005, the Company has net deferred tax assets of $12.1 million and $11.7 million, respectively, with corresponding valuation allowances. The Company's tax assets are scheduled to expire over a period of five to thirteen years.

RESULTS OF DISCONTINUED OPERATIONS

Effective January 1, 2004, the Company discontinued its practice management services. Results of operations from this segment are presented as discontinued operations for the three months ended June 30, 2005 and 2004 in accordance with SFAS 146 "ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES."

Net income from discontinued operations for the three months ended June 30, 2005 and 2004 was $7,000 and $0, respectively. Cash flows provided by discontinued operations were $111,000 and $100,000 for the three months ended June 30, 2005 and 2004, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a working capital deficiency, has incurred operating losses and has negative cash flows from continued operations. The Company currently does not have existing working capital and does not generate positive cash flows from operations. As a result, we may not have sufficient financial resources to satisfy our obligations as they come due in the near term. These matters, among others, including our limited operating history as a provider of Web conferencing and Web collaboration software have caused our auditors to conclude in their report on our consolidated financial statements at and for the year ending March 31, 2005 that there is doubt about the Company's ability to continue as a going concern. Our plan with regard to these matters includes the continued development, marketing and licensing of our iLinc Suite of products and services through both internal sales efforts and through external channel partnerships. We plan to expand where appropriate with external growth by acquisition, with those acquisitions possibly including providers of audio conferencing as well as Web conferencing products and services. Although we continue to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient revenues from its Web collaboration and audio conferencing products and services to generate profits or to provide adequate cash flows to sustain our operations. Our continuation as a Company may be dependent on our ability to either raise additional capital, continue to increase sales and revenues, or generate positive cash flows from operations in order to ultimately achieve profitability.

In order to increase its liquidity, the Company intends to restructure or extend existing obligations to reduce cash outflows for debt service, seek, if necessary, additional funding from the placement of debt or equity securities, and invest in further marketing and sales efforts that result in the sale of the Company's high margin software products and services. However, there can be no assurance that the Company's plans will be achieved or that the Company will be able to acquire additional sums.

As of June 30, 2005, the Company had a working capital deficit of $4.7 million. Current assets included $261,000 in cash, $1.7 million in accounts receivable, and $161,000 in prepaids. Current liabilities consisted of $1.0 million of deferred revenue, $993,000 of current maturities of long-term debt and capital leases and $4.8 million in accounts payable and accrued liabilities.

Cash used in operating activities from continuing operations was $191,000 during the three months ended June 30, 2005 and $1.1 million during the three months ended June 30, 2004. Cash used in operating activities from continuing operations during the three months ended June 30, 2005 was primarily attributable to a net loss of $892,000, decreases in accounts receivable of $175,000, and increases in prepaid expenses of $92,000. These items were partially offset by non-cash expenses and revenues of $641,000. Cash used in operating activities during the three months ended June 30, 2004 was primarily attributable to a net loss of $1.5 million, increases in accounts receivable and prepaid expenses of $351,000 and $110,000, respectively and a decrease in deferred revenue of $201,000. These items were partially offset by increases in accounts payable and accrued liabilities of $406,000 and non-cash expenses and revenues of $603,000.

Cash used in investing activities from continuing operations was $31,000 for the three months ended June 30, 2005, while cash used in investing activities from continuing operations was $299,000 for the three months ended June 30, 2004. Cash used in investing activities during the three months ended June 30, 2005 was due to capital expenditures of $22,000 and acquisition related expenses of $9,000. Cash used by investing activities for the three months ended June 30, 2004 was due to $207,000 of acquisition related royalty expenses, $61,000 of capital expenditures, and $35,000 of deferred offering costs, offset by $4,000 in cash acquired in acquisition.

Cash used in financing activities from continuing operations was $174,000 during the three months ended June 30, 2005, while cash provided by financing activities from continuing operations was $3.2 million during the three months ended June 30, 2004. Cash used in financing activities during the three months ended June 30, 2005 was attributable to the repayment of debt and capital leases totaling $121,000, payment of preferred dividends of $25,000, and financing costs of $28,000. Cash provided in financing activities during the three months ended June 30, 2004 was primarily due to proceeds of $4.3 million related to the issuance of unsecured senior notes and common stock of the company in April 2004, offset by financing costs of $665,000 and repayment of debt of $378,000.

INFORMATION RELATED TO ACQUISITIONS AND CAPITAL RAISE ACTIVITIES

In connection with the Company's IPO in March of 1998, the Company issued notes (the "IPO Notes") to certain shareholders who had provided capital prior to the IPO. Those amended IPO Notes matured on April 1, 2005. Subsequent to March 31, 2005, many of the IPO Note holders agreed to extend the maturity date and accept installment payments that are due through April 30, 2006 at an interest rate of 10%. The total outstanding principal balance on these IPO Notes is $235,000 as of June 30, 2005.

In March 2002, the Company completed a private placement offering (the "Convertible Note Offering") raising capital of $5,775,000 that was used to extinguish an existing line of credit. Under the terms of the Convertible Note Offering, the Company issued unsecured subordinated convertible notes (the "Convertible Notes"). The Convertible Notes bear interest at the rate of 12% per annum and require quarterly interest payments, with the principal due at maturity on March 29, 2012. The holders of the Convertible Notes may convert the principal into shares of the Company's common stock at the fixed price of $1.00 per share. The Company may force redemption by conversion of the principal into common stock at the fixed conversion price, if at any time the 20 trading day average closing price of the Company's common stock exceeds $3.00 per share. The notes are subordinated to any present or future senior indebtedness. As a part of the Convertible Note Offering the Company also issued warrants to purchase 5,775,000 shares of the Company's common stock for an exercise price of $3.00 per share. Those warrants expired on March 29, 2005 without exercise. The fair value of the warrants was estimated using a Black-Scholes pricing model with the following assumptions: contractual and expected life of three years, volatility of 75%, dividend yield of 0%, and a risk-free rate of 3.87%. A discount to the Convertible Notes of $1,132,000 was recorded using this value, which is being amortized to interest expense over the 10-year term of the Convertible Notes. As the carrying value of the notes is less than the conversion value, a beneficial conversion feature of $1,132,000 was calculated and recorded as an additional discount to the notes and is being amortized to interest expense over the 10 year term of the Convertible Notes. Upon conversion, any remaining discount associated with the beneficial conversion feature will be expensed in full at the time of conversion. Since issuance of the convertible notes and as of June 30, 2005, holders with a principal balance totaling $325,000 converted their notes into 754,238 shares of the Company's common stock at prices ranging from $1.00 to $0.30 per share.

On September 16, 2003, the Company completed its private placement of convertible series A preferred stock with detachable warrants. The Company sold 30 units at $50,000 each and raised a total of $1,500,000. Each unit consisted of 5,000 shares of convertible series A preferred stock, par value $0.001 and a warrant to purchase 25,000 shares of common stock. The convertible series A preferred stock is convertible into the Company's common stock at a price of $0.50 per share, and the warrants are immediately exercisable at a price of $1.50 per share with a three-year term. Accordingly, each share of series A preferred stock is convertible into 20 shares of common stock and retains a $10 liquidation preference. The Company pays an 8% dividend to holders of the convertible series A preferred stock, and the dividend is cumulative. The convertible series A preferred stock is non-voting and non-participating. The shares of convertible series A preferred stock will not be registered under the Securities Act of 1933, as amended, and were offered in a private placement providing exemption from registration. The cash proceeds of the private placement of convertible series A preferred stock was allocated pro rata between the relative fair values of the series A preferred stock and warrants at issuance using the Black-Scholes valuation model for valuing the warrants. The aggregate value of the warrants and the beneficial conversion discount of $247,000 are considered a deemed dividend in the calculation of loss per share. During the 2005 fiscal year, holders of 22,500 shares of series A preferred stock converted those shares into 450,000 shares of the Company's common stock. The underlying common stock that would be issued upon conversion of the series A preferred stock and upon exercise of the associated warrants have been registered with the SEC and may be sold pursuant to a resale prospectus dated May 24, 2004.

In February of 2004, the Company completed a private placement offering raising capital of $500,000 that was used for general corporate purposes. Under the terms of the offering, the Company issued unsecured subordinated convertible notes that have a term of 24 months (subject to adjustment in certain events), and the notes are subordinated to any present or future senior indebtedness. The notes bear interest at the rate of 8% per annum and require quarterly payments of interest only, with the principal due at maturity on February 12, 2006. In May and June of 2004 holders with a principal balance totaling $500,000 converted their notes into 714,285 common shares of the Company. The underlying common stock issued upon conversion of the notes have been registered with the SEC and may be sold pursuant to a resale prospectus dated May 24, 2004.

In April of 2004, the Company completed a private placement offering raising capital of $4,250,000 that provided the Company $3.8 million of net proceeds. Under the terms of this offering, the Company issued $3,187,000 in unsecured senior notes and 1,634,550 shares of common stock of the Company. The senior notes were issued as a series of notes pursuant to a unit purchase and agency agreement. The senior notes are unsecured, non-convertible, and the purchasers received no warrants. The senior notes bear interest at a rate of 10% per annum and accrued interest was due and payable on a quarterly basis beginning July 15, 2004, with principal due at maturity on July 15, 2007. The senior notes are redeemable by the Company at 100% of the principal value at any time after July 15, 2005. The senior notes are unsecured obligations of the Company but are senior in right of payment to all existing and future indebtedness of the Company. The common stock that was issued as a part of this offering has been registered with the SEC and may be sold pursuant to a resale prospectus dated August 2, 2005. Since issuance of the senior notes and as of June 30, 2005, holders with a principal balance totaling $225,000 converted their senior notes into 903,205 shares of the Company's common stock at a price of $0.25 per share.

On June 3, 2004, the Company executed an agreement to acquire substantially all of the assets of and assume certain liabilities of Glyphics, Inc., a Utah based private company that is a provider of comprehensive audio conferencing products and services. The acquisition had a stated effective date of June 1, 2004 and was fully consummated on June 14, 2004. The purchase price totaled $5.229 million, depending upon contingencies in the purchase agreement that are based on a multiple of the Glyphics' 2003 annual audited net audio conferencing business revenues. The purchase price was paid with the assumption of approximately $2.466 million in specific liabilities, with the balance paid using the Company's common stock at the fixed price of $1.05 per share, or an estimated 3.524 million shares. Twenty percent of the consideration due is being held in escrow. The consideration held in escrow is in the form of 704,839 shares of the Company's common stock. Amounts held in escrow will be available to the Company to satisfy contingent claims and seller's indemnification obligations. Shares held in escrow also may be returned to the Company in the event that audio conferencing revenues obtained by the Company during the 12-month period beginning June 1, 2004 do not exceed the audited revenues earned by Glyphics during the calendar year ending December 31, 2003. Due to the Company assuming obligations of $351,000 greater than scheduled in the purchase agreement, the Company believes that it has a claim of return against approximately 369,000 of the shares held in escrow. The common stock that was issued as a part of this transaction has been registered with the SEC and may be sold pursuant to a resale prospectus dated August 2, 2005.

CONTRACTUAL OBLIGATIONS

The following schedule details all of the Company's indebtedness and the required payments related to such obligations at June 30, 2005 (in thousands):

	TOTAL	DUE IN LESS THAN ONE YEAR	DUE IN YEAR TWO	DUE IN YEAR THR
Long term debt obligations	$ 9,635	$ 815	$ 7	$ 3,
Capital lease obligations	178	178	--	
Interest expense	5,240	1,027	994	
Operating lease obligations	1,233	685	458	
Base salary commitments under employment agreements	970	595	375	
Total contractual obligations	$ 17,256	$ 3,300	$ 1,834	$ 3,

OFF BALANCE SHEET TRANSACTIONS

There are no off-balance sheet transactions, arrangements, obligations (including contingent obligations) or other relationships of the Company with unsolicited entities or other persons that have or may have a material effect on financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources of the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The more significant areas requiring use of estimates relate to revenue recognition, accounts receivable and notes receivable valuation reserves, realizability of intangible assets, realizability of deferred income tax assets, and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of such estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

Our critical accounting policies and estimates are included in the Company's annual report on Form 10-K for the year ended March 31, 2005 as filed with the SEC.

ADDITIONAL RISK FACTORS THAT MAY AFFECT OUR OPERATING RESULTS AND THE MARKET PRICE OF OUR COMMON STOCK

You should carefully consider the risks described below. The risks and uncertainties described below are not the only ones we face. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could be adversely affected.

WE HAVE A LIMITED OPERATING HISTORY, WHICH MAKES IT DIFFICULT TO EVALUATE OUR BUSINESS.

We have a limited operating history in the Web conferencing and audio conferencing business. While the organizations that we have acquired have been engaged in their respective business for over five years, we only recently acquired those assets and have undertaken to integrate their assets into our operations at varying levels. Since the acquisition of these businesses, we have made significant changes to our product mix and service mix, our growth strategies, our sales and marketing plans, and other operational matters. As a result, it may be difficult to evaluate an investment in our company. Given our recent investment in technology, we cannot be certain that our business model and future operating performance will yield the results that we intend. In addition, the competitive and rapidly changing nature of the Web conferencing and audio conferencing markets makes it difficult for us to predict future results. Our business strategy may be unsuccessful and we may be unable to address the risks we face.

WE FACE RISKS INHERENT IN INTERNET-RELATED BUSINESSES AND MAY BE UNSUCCESSFUL IN ADDRESSING THESE RISKS.

We face risks frequently encountered by companies in new and rapidly evolving markets such as Web conferencing and audio conferencing. We may fail to adequately address these risks and, as a consequence, our business may suffer. To address these risks among others, we must successfully introduce and attract new customers to our products and services; successfully implement our sales and marketing strategy to generate sufficient sales and revenues to achieve or sustain operations; foster existing relationships with our existing customers to provide for continued or recurring business and cash flow; and, successfully address and establish new products and technologies as new markets develop. We may not be able to sufficiently access, address, and overcome risks inherent in our business strategy.

OUR QUARTERLY OPERATING RESULTS ARE UNCERTAIN AND MAY FLUCTUATE SIGNIFICANTLY.

Our operating results have varied significantly from quarter to quarter and are likely to continue to fluctuate as a result of a variety of factors, many of which we cannot control. Factors that may adversely affect our quarterly operating results include: the size and timing of product orders; the mix of revenue from custom services and software products; the market acceptance of our products and services; our ability to develop and market new products in a timely manner and the market acceptance of these new products; the timing of revenues and expenses relating to our product sales; and, the timing of revenue recognition. Expense levels are based, in part, on expectations as to future revenue and to a large extent are fixed in the short term. To the extent we are unable to predict future revenue accurately, we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall.

WE HAVE SIGNIFICANT OPERATING LOSSES, HAVE LIMITED FINANCIAL RESOURCES, AND MAY NOT BECOME PROFITABLE.

We have incurred substantial operating losses and have limited financial resources at our disposal. We have long-term obligations that we will not be able to satisfy without additional debt and/or equity capital and/or ultimately generating profits and cash flows from our Web conferencing and audio conferencing operations. If we are unable to achieve profitability in the near future, we will face increasing demands for capital and liquidity. We may not be successful in raising additional debt or equity capital and may not become profitable in the short term or not at all. As a result, we may not have sufficient financial resources to satisfy our obligations as they come due in the short term.

OUR AUDITORS HAVE EXPRESSED SUBSTANTIAL DOUBT AS TO OUR ABILITY TO CONTINUE AS A GOING CONCERN.

Our consolidated financial statements have been prepared on a basis which assumes that we will continue as a going concern and which contemplates the realization of our assets and the satisfaction of our liabilities and commitments in the normal course of business. We have a significant working capital deficiency, and have historically suffered substantial recurring losses and negative cash flows from operations. These factors, among others, have caused our auditors to conclude in their report that there is substantial doubt as to our ability to continue as a going concern. Our plans with regard to these factors include continued development, marketing, and licensing of our Web Conferencing and audio conferencing products and services through both internal growth and acquisition and the obtainment of additional capital. Although we continue to pursue these plans, there is no assurance that we will be successful in obtaining sufficient revenues from our products and services to provide

adequate cash flows to sustain operations. Our continuation is dependent on our ability to raise additional equity or debt capital, to increase our Web conferencing and audio conferencing revenues, to generate positive cash flows from operations and to achieve profitability. The consolidated financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might result from the outcome of this uncertainty.

LISTING QUALIFICATIONS MAY NOT BE MET.

The American Stock Exchange's continued listing standards require that the Company maintain stockholder's equity of at least $4.0 million if the Company has losses from continuing operations and/or net losses in three of its four most recent fiscal years. The Company has sustained losses in three of its four most recent fiscal years and therefore must maintain at stockholder's equity of at least $4.0 million. As of the date of this Report, the Company did not have at least $4.0 million in stockholder's equity. If now or in the future, the Company fails to maintain a sufficient level of stockholder's equity in compliance with those and other listing standards of the American Stock Exchange then the Company would be required to submit a plan to the American Stock Exchange describing how it intended to regain compliance with the requirements.

DILUTION TO EXISTING STOCKHOLDERS IS LIKELY TO OCCUR UPON ISSUANCE OF SHARES WE HAVE RESERVED FOR FUTURE ISSUANCE.

On June 30, 2005, 25,577,287 shares of our common stock were issued, of which 1,432,412 were held in treasury, and 14,280,102 additional shares of our common stock were reserved for issuance. The issuance of these additional shares will reduce the percentage ownership of existing stockholders in the Company. The existence of these reserved shares coupled with other factors, such as the relatively small public float, could adversely affect prevailing market prices for our common stock and our ability to raise capital through an offering of equity securities.

THE LOSS OF THE SERVICES OF OUR SENIOR EXECUTIVES AND KEY PERSONNEL WOULD LIKELY CAUSE OUR BUSINESS TO SUFFER.

Our success depends to a significant degree on the performance of our senior management team. The loss of any of these individuals could harm our business. We do not maintain key person life insurance for any officers or key employees other than on the life of James M. Powers, Jr., our Chairman, President and CEO, with that policy providing a death benefit to the Company of $1.0 million. Our success also depends on the ability to attract, integrate, motivate and retain additional highly skilled technical, sales and marketing, and professional services personnel. To the extent we are unable to attract and retain a sufficient number of additional skilled personnel, our business will suffer.

OUR INTELLECTUAL PROPERTY MAY BECOME SUBJECT TO LEGAL CHALLENGES, UNAUTHORIZED USE OR INFRINGEMENT, ANY OF WHICH COULD DIMINISH THE VALUE OF OUR PRODUCTS AND SERVICES.

Our success depends in large part on our proprietary technology. If we fail to successfully enforce our intellectual property rights, the value of these rights, and consequently, the value of our products and services to our customers, could diminish substantially. It may be possible for third parties to copy or otherwise obtain and use our intellectual property or trade secrets without our authorization, and it may also be possible for third parties to independently develop substantially equivalent intellectual property. Currently, we do not have patent protection in place related to our products and services. Litigation may be necessary in the future to enforce our intellectual property rights, to protect trade secrets or to determine the validity and scope of the proprietary rights of others. While we have not received any notice of any claim of infringement of any of our intellectual property, from time to time we may receive notice of claims of infringement of other parties' proprietary rights. Such claims could result in costly litigation and could divert management and technical resources. These types of claims could also delay product shipment or require us to develop non-infringing technology or enter into royalty or licensing agreements, which agreements, if required, may not be available on reasonable terms, or at all.

COMPETITION IN THE WEB CONFERENCING AND AUDIO CONFERENCING SERVICES MARKET IS INTENSE AND WE MAY BE UNABLE TO COMPETE SUCCESSFULLY, PARTICULARLY AS A RESULT OF RECENT ANNOUNCEMENTS FROM LARGE SOFTWARE COMPANIES.

The markets for Web conferencing and audio conferencing products and services are relatively new, rapidly evolving and intensely competitive. Competition in our market will continue to intensify and may force us to reduce

our prices, or cause us to experience reduced sales and margins, loss of market share and reduced acceptance of our services. Many of our competitors have larger and more established customer bases, longer operating histories, greater name recognition, broader service offerings, more employees and significantly greater financial, technical, marketing, public relations, and distribution resources than we do. We expect that we will face new competition as others enter our market to develop Web conferencing and audio conferencing services. These current and future competitors may also offer or develop products or services that perform better than ours. In addition, acquisitions or strategic partnerships involving our current and potential competitors could harm us in a number of ways.

FUTURE REGULATIONS COULD BE ENACTED THAT EITHER DIRECTLY RESTRICT OUR BUSINESS OR INDIRECTLY IMPACT OUR BUSINESS BY LIMITING THE GROWTH OF INTERNET-BASED BUSINESS AND SERVICES.

As commercial use of the Internet increases, federal, state, and foreign agencies could enact laws or adopt regulations covering issues such as user privacy, content, and taxation of products and services. If enacted, such laws or regulations could limit the market for our products and services. Although they might not apply to our business directly, we expect that laws or rules regulating personal and consumer information could indirectly affect our business. It is possible that such legislation or regulation could expose us to liability which could limit the growth of our Web conferencing and audio conferencing products and services. Such legislation or regulation could dampen the growth in overall Web conferencing usage and decrease the Internet's acceptance as a medium of communications and commerce.

WE DEPEND LARGELY ON ONE-TIME SALES TO GROW REVENUES WHICH MAKE OUR REVENUES DIFFICULT TO PREDICT.

While audio conferencing provides a more recurring revenue base, a high percentage of our revenue is attributable to one-time purchases by our customers rather than long term recurring conferencing ASP type contracts. As a result, our inability to continue to obtain new agreements and sales may result in lower than expected revenue, and therefore, harm our ability to achieve or sustain operations or profitability on a consistent basis, which could also cause our stock price to decline. Further, because we face competition from larger better-capitalized companies, we could face increased downward pricing pressure that could cause a decrease in our gross margins. Additionally, our sales cycle varies depending on the size and type of customer considering a purchase. Potential customers frequently need to obtain approvals from multiple decision makers within their company and may evaluate competing products and services before deciding to use our services. Our sales cycle, which can range from several weeks to several months or more, combined with the license purchase model makes it difficult to predict future quarterly revenues.

OUR OPERATING RESULTS MAY SUFFER IF WE FAIL TO DEVELOP AND FOSTER OUR VALUE ADDED RESELLER OR DISTRIBUTION RELATIONSHIPS.

We have an existing channel and distribution network that provides growing revenues and contributes to our high margin software sales. These distribution partners are not obligated to distribute our services at any particular minimum level. As a result, we cannot accurately predict the amount of revenue we will derive from our distribution partners in the future. The inability of our distribution partners to sell our products to their customers and increase their distribution of our products could result in significant reductions in our revenue, and therefore, harm our ability to achieve or sustain profitability on a consistent basis.

SALES IN FOREIGN JURISDICTIONS BY US AND OUR INTERNATIONAL DISTRIBUTOR NETWORK MAY CAUSE COSTS THAT ARE NOT ANTICIPATED.

We continue to expand internationally through our value added reseller network and OEM partners. We have limited experience in international operations and may not be able to compete effectively in international markets. We face certain risks inherent in conducting business internationally, such as:

- our inability to establish and maintain effective distribution channels and partners;
- the varying technology standards from country to country;
- our inability to effectively protect our intellectual property rights or the code to our software;

- our inexperience with inconsistent regulations and unexpected changes in regulatory requirements in foreign jurisdictions;
- language and cultural differences;
- fluctuations in currency exchange rates;
- our inability to effectively collect accounts receivable; or
- our inability to manage sales and other taxes imposed by foreign jurisdictions.

THE GROWTH OF OUR BUSINESS SUBSTANTIALLY DEPENDS ON OUR ABILITY TO SUCCESSFULLY DEVELOP AND INTRODUCE NEW SERVICES AND FEATURES IN A TIMELY MANNER.

We acquired our Web conferencing software and business in November of 2002 and we acquired our audio conferencing business in June of 2004. With our focus on those products and services, our growth depends on our ability to continue to develop new features, products, and services around that software and product line. We may not successfully identify, develop, and market new products and features in a timely and cost-effective manner. If we fail to develop and maintain market acceptance of our existing and new products to offset our continuing development costs, then our net losses will increase and we may not be able to achieve or sustain profitability on a consistent basis.

IF WE FAIL TO OFFER COMPETITIVE PRICING, WE MAY NOT BE ABLE TO ATTRACT AND RETAIN CUSTOMERS.

Because the Web conferencing market is relatively new and still evolving, the prices for these services are subject to rapid and frequent changes. In many cases, businesses provide their services at significantly reduced rates, for free or on a trial basis in order to win customers. Due to competitive factors and the rapidly changing marketplace, we may be required to significantly reduce our pricing structure, which would negatively affect our revenue, margins and our ability to achieve or sustain profitability on a consistent basis. We have an existing channel and distribution network that provides growing revenues and contributes to our high margin software sales. These distribution partners are not obligated to distribute our services at any particular minimum level. As a result, we cannot accurately predict the amount of revenue we will derive from our distribution partners in the future. The inability of our distribution partners to sell our products to their customers and increase their distribution of our products could result in significant reductions in our revenue, and therefore, harm our ability to achieve or sustain profitability on a consistent basis.

IF WE ARE UNABLE TO COMPLETE OUR ASSESSMENT AS TO THE ADEQUACY OF OUR INTERNAL CONTROLS OVER FINANCIAL REPORTING AS REQUIRED BY SECTION 404 OF THE SARBANES-OXLEY ACT OF 2002, INVESTORS COULD LOSE CONFIDENCE IN THE RELIABILITY OF OUR FINANCIAL STATEMENTS, WHICH COULD RESULT IN A DECREASE IN THE VALUE OF OUR COMMON STOCK.

As directed by Section 404 of the Sarbanes-Oxley of 2002, the Securities and Exchange Commission adopted rules requiring public companies to include in their annual reports on Form 10-K a report of management on their company's internal control over financial reporting, including management's assessment of the effectiveness of their company's internal control over financial reporting as of the company's fiscal year end. In addition, the accounting firm auditing a public company's financial statements must also attest to and report on management's assessment of the effectiveness of the company's internal control over financial reporting as well as the operating effectiveness of the company's internal controls. There is a risk that we may not comply with all of its requirements. If we do not timely complete our assessment or if our internal controls are not designed or operating effectively as required by Section 404, our accounting firm may either disclaim an opinion as it is related to management's assessment of the effectiveness of its internal controls or may issue a qualified opinion on the effectiveness of the Company's internal controls. If our accounting firm disclaims its opinion or qualifies its opinion as to the effectiveness of our internal controls, then investors may lose confidence in the reliability of our financial statements, which could cause the market price of our common stock to decline.

WE ARE EXPOSED TO RISKS RELATING TO THE EFFECTIVENESS OF OUR INTERNAL CONTROLS

On August 11, 2004, the Company's independent registered public accountants orally notified the Company's Audit Committee that they had identified significant deficiencies regarding the Company's internal controls. The deficiencies noted were lack of sufficient management oversight over and the proper segregation of duties of the accounting department. On November 12, 2004, the Company's independent registered public accountants orally notified the Company's Audit Committee that they had identified a material weakness regarding

the Company's internal controls. The material weakness noted was the lack of sufficient control over the sales order and revenue recognition process. The Company's management evaluated the design and operation of its disclosure controls and procedures as of September 30, 2004 to determine whether they are effective in ensuring that the Company disclose the required information in a timely manner and in accordance with the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the rules and forms of the Securities and Exchange Commission. Management, including its principal executive officer and principal financial officer, supervised and participated in the evaluation. The principal executive officer and principal financial officer concluded, based on their review, that the Company's disclosure controls and procedures, as defined by Exchange Act Rules 13a-14(c) and 15d-14(c), were not effective as of September 30, 2004.

Following the August 11, 2004 notification regarding significant deficiencies in accounting controls related to management oversight and proper segregation of duties in the accounting department, the Company took the following actions:

- The Company hired a new CFO and a new controller replacing the interim-CFO and replacing the VP of Finance;
- The Company hired a new A/P clerk and added a dedicated A/R clerk to supplement the accounting staff, further segregating functions to the extent possible in a small organization;
- The Company restructured the roles of the new controller in combination with a change in the reporting procedures for the A/P clerk and A/R clerk to strengthen the reporting structures and internal control procedures;
- The Company implemented new sign-off procedures for sales agreements to require multiple party sign-off from both the sales and finance departments; and
- The Company added to its CRM software the ability to gain access to view sales contracts and recorded purchase information in that system as well as the accounting systems.

In response to the November 12, 2004 notification regarding the material weakness regarding the Company's internal controls, the Company implemented steps to prevent failure to communicate changes in standard forms of customer contracts in the future and strengthen the Company's internal controls related to contract management and its impact on revenue recognition. The Company has put procedures into place to prevent modification of its standard form of software license agreements without due and proper notice to all parties, including the Company's accounting group. Those steps to correct and prevent this in the future include:

- New controls over the modification of electronic contracts adding limited password protection;
- The electronic receipt of contracts from customers directly to both the sales and accounting groups simultaneously;
- The numbering of contracts and order forms to provide a stronger audit trail;
- The electronic storage of all customers' contracts providing real-time access;
- The notification of the accounting department by the sales or legal departments should modification occur; and
- Remedial training of the sales group on the impact of changes to the software license agreement.
- A further segregation of duties was also implemented to better control contract workflow as follows:
    - A supervisor from the sales team must approve all sales orders before they are accepted by the sales department, and a supervisor from the accounting group must approve all orders that exceed $10,000 in amount before they are accepted as a valid sale of the company;
    - An order processing clerk verifies that the appropriate Customer and Company authorizations have been obtained;
    - The approved sales order is transmitted to the customer service department for order fulfillment;
    - Notification of fulfillment of the order is sent to both the sales and accounting departments; and
    - Before revenue is recognized on any sales order, the controller verifies that the sales order was properly

approved by the customer and the Company, verifies that changes, if any, to the standard license agreement have been properly documented in writing and in the customer's electronic file and thereafter records revenue based upon the approved and verified documentation.

The Company believes that the steps it has taken adequately address the significant deficiencies and material weaknesses identified by the Company's independent registered public accountants. However, we may experience control

deficiencies or weaknesses in the future, which could adversely impact the accuracy and timeliness of our future financial reporting and reports and filings we make with the SEC.

WE MAY ACQUIRE OTHER BUSINESSES THAT COULD NEGATIVELY AFFECT OUR OPERATIONS AND FINANCIAL RESULTS AND DILUTE EXISTING STOCKHOLDERS.

We may pursue additional business relationships through acquisition which may not be successful. We may have to devote substantial time and resources in order to complete acquisitions and we therefore may not realize the benefits of those acquisitions. Further, these potential acquisitions entail risks, uncertainties and potential disruptions to our business. For example, we may not be able to successfully integrate a company's operations, technologies, products and services, information systems, and personnel into our business. These risks could harm our operating results and could cause our stock price to decline.

OUR CURRENT STOCK COMPENSATION EXPENSE NEGATIVELY IMPACTS OUR EARNINGS, AND WHEN WE ARE REQUIRED TO REPORT THE FAIR VALUE OF EMPLOYEE STOCK OPTIONS AS AN EXPENSE IN CONJUNCTION WITH THE NEW ACCOUNTING STANDARDS, OUR EARNINGS WILL BE ADVERSELY AFFECTED, WHICH MAY CAUSE OUR STOCK PRICE TO DECLINE.

Under our current accounting practice, stock compensation expense is recorded on the date of the grant only if the current market price of the underlying stock exceeds the exercise price. Beginning with the fiscal quarter ended September 30, 2005, we will be required to report all employee stock options as an expense based on a change in the accounting standards and our earnings will be negatively impacted, which may cause our stock price to decline and increase our anticipated net losses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The following discusses our exposure to market risk related to changes in interest rates, equity prices and foreign currency exchange rates. Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and market prices. We have not traded or otherwise bought and sold derivatives nor do we expect to in the future. We also do not invest in market risk sensitive instruments for trading purposes.

We provide our products and services to customers in the United States, Europe and elsewhere throughout the world. Sales are predominately made in U.S. Dollars, however, we have sold products that were payable in Euros and Canadian Dollars. A strengthening of the U.S. Dollar could make our products and services less competitive in foreign markets.

The primary objective of the Company's investment activity is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, the Company maintains its portfolio of cash equivalents in a variety of money market funds.

As of June 30, 2005, the carrying value of our outstanding convertible redeemable subordinated notes and unsecured senior notes was approximately $9.1 million at fixed interest rates of 10% to 12%. In certain circumstances, we may redeem this long-term debt. Our other components of indebtedness bear interest rates of 5% to 6%. Increases in interest rates could increase the interest expense associated with future borrowings, if any. We do not hedge against interest rate increases.

ITEM 4. CONTROLS AND PROCEDURES

We evaluated the design and operation of our disclosure controls and procedures as of June 30, 2005 to determine whether they are effective in ensuring that we disclose the required information in a timely manner and in accordance with the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the rules and forms of the Securities and Exchange Commission. Management, including our principal executive officer and principal financial officer, supervised and participated in the evaluation. The principal executive officer and principal financial officer concluded, based on their review, that our disclosure controls and procedures, as defined by Exchange Act Rules 13a-15(e) and 15d-15(e), are effective and ensure that (i) we disclose the required information in reports that we file under the Exchange Act and that the filings are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) information required to be disclosed in reports that we file under the Exchange Act is accumulated and communicated to our management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

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Our disclosure and control systems are designed to provide reasonable assurance of achieving their objectives, and our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures provide reasonable assurance of achieving their objectives. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

During the first quarter ended June 30, 2005, no changes were made to its internal controls over financial reporting that materially affected or were reasonably likely to materially affect these controls subsequent to the date of their evaluation.

PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS OF SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
3.1(1)	Restated Certificate of Incorporation of the Company
3.2(1)	Bylaws of the Company
3.3(7)	Restated Certificate of Incorporation of the Company
3.4(7)	Amendment of Bylaws of the Company
3.5(8)	Restated Certificate of Incorporation of the Company
3.6(14)	Certificate of Designations of Series A Preferred Stock
3.7(15)	Certificate of Amendment of Restated Certificate of Incorporation of the Company
4.1(1)	Form of certificate evidencing ownership of Common Stock of the Company
4.6(7)	Form of certificate evidencing ownership of Common Stock of the Company
4.7(8)	Form of Convertible Redeemable Subordinated Note
4.8(8)	Form of Redeemable Warrant (2002 Private Placement Offering)
4.9(14)	Form of Redeemable Warrant (2003 Private Placement Offering)
+10.1(1)	The Company's 1997 Stock Compensation Plan

+10.9(7)	Employment Agreement dated November 12, 2000 between the Company and James M. Powers, Jr.
+10.11(19)	Employment Agreement dated February 15, 2001 between the Company and James L. Dunn, Jr. with Amendment
10.14(9)	Plan of Reorganization and Agreement of Merger by and among the Company, Edge Acquisition Subsidiary, Inc. and the Stockholders of Learning-Edge, Inc.
10.15(10)	Plan of Reorganization and Agreement of Merger by and among the Company, TW Acquisition Subsidiary, Inc., ThoughtWare Technologies, Inc. and the Series B Preferred Stockholder of ThoughtWare Technologies, Inc.
10.16(11)	Asset Purchase Agreement by and among the Company and Quisic Corporation. Common Stock Purchase Agreement by and between the Company, Investor Growth Capital Limited, A Guernsey Corporation and Investor Group, L.P., A Guernsey Limited Partnership and Leeds Equity Partners III, L.P.
10.16(12)	Asset Purchase Agreement by and among the Company, and Mentergy, Inc. and its wholly-owned subsidiaries, LearnLinc Corp and

	Gilat-Allen Communications, Inc.
10.17(14)	Subcontractor Agreement between the Company and Interactive Alchemy, Inc.
+10.18(17)	Employment Agreement dated January 6, 2004 between the Company and Nathan Cocozza
10.19(17)	Note Purchase Agreement dated February 12, 2004 between the Company and the "Lenders"
10.20(17)	Unit Purchase and Agency Agreement dated April 19, 2004 between the Company and Cerberus Financial, Inc.
10.21(17)	Placement Agency Agreement dated March 10, 2004 between the Company and Peacock, Hislop, Staley, and Given, Inc.
10.22(16)	Asset Purchase Agreement and Plan of Reorganization by and between the Company and Glyphics Communications, Inc.
+10.23(18)	Employment Agreement dated June 1, 2004 between the Company and Gary L. Moulton
+10.24(18)	Employment Agreement dated July 19, 2004 between the Company and John S. Hodgson
+10.25(19)	Employment Agreement dated March 14, 2005 between the Company and David Iannini
14.1(18)	Code of Ethics
16(13)	Letter re Change in Certifying Accountant
++31.1	Chief Executive Officer Section 302 Certification
++31.2	Principal Financial Officer Section 302 Certification
++32.1	Chief Executive Officer Section 906 Certification
++32.2	Principal Financial Officer Section 906 Certification

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(1) Previously filed as an exhibit to iLinc's Registration Statement on Form SH-1 (No. 333-37633), and incorporated herein by reference.
(2) Previously filed as an exhibit to iLinc's Registration Statement on Form S-4 (No. 333-78535), and incorporated herein by reference.
(3) Previously filed as an exhibit to iLinc's Registration Statement on Form S-4 (No. 333-64665), and incorporated herein by reference.
(4) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1998.
(5) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1998.
(6) Previously filed as an exhibit to iLinc's Annual Report on Form 10-K for the year ended March 31, 2000.
(7) Previously filed as an exhibit to iLinc's Annual Report on Form 10-K for the year ended March 31, 2001.
(8) Previously filed as an exhibit to iLinc's Annual Report on Form 10-K for the year ended March 31, 2002.
(9) Previously filed as an exhibit to iLinc's Form 8-K filed October 16, 2001.
(10) Previously filed as an exhibit to iLinc's Form 8-K filed January 30, 2002.
(11) Previously filed as an exhibit to iLinc's Form 8-K filed July 2, 2002.
(12) Previously filed as an exhibit to iLinc's Form 8-K filed December 20, 2002.
(13) Previously filed as an exhibit to iLinc's Form 8-K filed April 3, 2003.
(14) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003.
(15) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2003.
(16) Previously filed as an exhibit to iLinc's Form 8-K filed June 14, 2004.

(17) Previously filed as an exhibit to iLinc's Annual Report on Form 10-K for

the year ended March 31, 2004.

(18) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004.

(19) Previously filed as an exhibit to iLinc's Annual Report on Form 10-K for the year ended March 31, 2005.

\+ Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to the requirements of Item 15 of Form 10-K.

++ Furnished herewith as an Exhibit

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant, iLinc Communications, Inc., has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ILINC COMMUNICATIONS, INC.

Dated: August 12, 2005

By: /s/ James M. Powers, Jr.

Chairman of the Board, President and Chief Executive Officer

By: /s/ James L. Dunn, Jr.

Senior Vice President & Chief Financial Officer