ILINC COMMUNICATIONS INC
Form 10-K
June 29, 2007

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

FORM 10-K

For Annual and Transition Reports
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

(MARK ONE)

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MARCH 31, 2007.

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 __________

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

DELAWARE	76-0545043
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

2999 N. 44TH STREET, SUITE 650
PHOENIX, ARIZONA 85018
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

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

Securities registered pursuant to Section 12(b) of the Act	Name of Exchange on Which Registered
COMMON, $0.001 PAR VALUE PER SHARE	AMERICAN STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act
NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold on the American Stock Exchange as of March 31, 2007, was approximately $13,492,278 using a closing price of $0.66 per share.

The number of shares of common stock of the registrant, par value $0.001 per share, outstanding at June 25, 2007 was 33,585,431 net of shares held in treasury.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement relating to the Annual Meeting of Stockholders of the registrant to be held on August 24, 2007 are incorporated by reference into Part III of this Report.

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FORM 10-K 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 "Management's 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, EventPlus, On-Demand, iReduce, iLinc Enterprise Unlimited and its logos are trademarks or registered trademarks of iLinc Communications, Inc. All other company names and products may be trademarks of their respective companies.

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PART I

ITEM 1. BUSINESS

COMPANY OVERVIEW

Headquartered in Phoenix, Arizona, iLinc Communications, Inc., a Delaware Corporation, is a leading provider of Web conferencing and audio conferencing software and services. We develop and sell software that provides real-time collaboration and training using Web-based tools. Our four-product iLinc Suite, comprised of LearnLinc, MeetingLinc, ConferenceLinc and SupportLinc, is an award winning virtual classroom, Web conferencing and collaboration suite of software. 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 9.0. Uses for our four-product suite of Web collaboration software include online business meetings, sales presentations, 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. We market our products using a direct sales force and a distribution channel consisting of agents, distributors, value added resellers and OEM partners. We allow customers to choose between purchasing a perpetual license and subscribing to a term license, providing for flexibility in pricing and payment methods. Our revenues are a mixture of perpetual and periodic licenses of software, subscription revenues from annual software maintenance, hosting and support agreements and audio conferencing services.

PRODUCTS AND SERVICES

WEB CONFERENCING AND WEB COLLABORATION

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

LearnLinc 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, 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 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 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 earnings 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 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 software is sold on a perpetual license or periodic license basis. A customer may choose to acquire a one-time perpetual license (the "Purchase Model") or may rent our software on a periodic basis on either a per-seat, per-month or per-minute basis (the "Subscription Model"). Should they choose to acquire the software using the Purchase Model, then they may either elect to host our software behind their own firewall or they may choose to have iLinc host it for them, depending upon their preferences, budget and IT capabilities. Customers who select the Purchase Model, whether hosted by iLinc or the customer, may also subscribe for ongoing customer support and maintenance and software upgrade services, using a support and maintenance contract with terms from one to five years. The annual maintenance and support fee charged is initially based upon a percentage of the purchase price that varies between 12% and 18% of the purchase license fee paid for the perpetual licenses, with the percentage depending upon the contractual length and pre-payment of the annual maintenance and support agreement. If a customer chooses to have iLinc host their Purchase Model licenses, then the customer is also charged an annual hosting fee equal to 10% of the Purchase Model License fee that was paid for the perpetual license.

During fiscal 2006, iLinc launched its Enterprise Unlimited perpetual licensing model that enables customers to pay a one-time up-front fee for unlimited, organization-wide Web conferencing, as well as a named-user model that permits a host to subscribe for a limited use room. Those customers who qualify for the iLinc Enterprise Unlimited site license may subscribe to an unlimited use license. The initial iLinc Enterprise Unlimited license fee is determined based upon the number of employees within the customer's organization and various other factors. The annual maintenance and support fees and hosting fees associated with an iLinc Enterprise Unlimited license are then based upon a fixed rate per-seat license that is active on each annual anniversary of the iLinc Enterprise Unlimited license agreement. Customers may expand the number of active seats available to them at any time with a corresponding increase in annual maintenance and hosting fees being charged.

Customers choosing the Subscription Model pay per seat (concurrent connection) on either a per-month or per-year basis depending upon the length and term of the subscription agreement. Hosting and maintenance are included as a part of the monthly or annual rental fees. Customers may also obtain Web conferencing and audio conferencing on a per-minute basis using the iLinc On-Demand product. Those choosing the iLinc On-Demand product pay on a monthly basis typically without contractual commitment.

AUDIO CONFERENCING

The Company also delivers comprehensive audio conferencing solutions that help businesses provide virtual meetings, corporate events, distance learning programs and daily conference calls. Our audio conferencing offering includes a wide array of services and products that include the following:

- AUDIO ON-DEMAND (NO RESERVATIONS NEEDED): With 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: High-quality event services that include invitation and user management, scripting, presentation preparation, post show distribution and dedicated operator assistance 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.

iLinc recently launched version 9.0 of the iLinc Suite(TM) in June 2007 as a fully integrated voice and Web conferencing system allowing customers to manage all aspects of their audio and Web session.

OTHER PRODUCTS AND SERVICES

In addition to the iLinc Suite of products and audio conferencing services, we offer to our customers custom content development services through a subcontractor relationship and an off-the-shelf online library of content that includes an online mini-MBA program co-developed with the Tuck School of Business at Dartmouth College. These other services are a small portion of our overall revenue base and will likely phase out as an offered service over the next three years.

INDUSTRY TRENDS

Industry analyst Frost and Sullivan in their 2005 World Web Conferencing Market report separates the Web Conferencing vendor community into distinct groups that include: service providers ("Service Providers") and software providers ("Software Providers"). The difference between Service Providers and Software Providers is that the Service Providers effectively only offer Web conferencing as an ASP service or rental model basis. However, Software Providers offer Web conferencing as a solution that can be purchased and owned by customers (whether the software is installed internally by customers or hosted by the software provider). iLinc is one of the only providers that effectively competes in both the Service Provider and Software Provider markets. While we also offer our iLinc Suite as an ASP or per-minute service, the predominate licensing arrangement selected by our customer base remains the Purchase Model. The Web conferencing software market is the faster growing segment, representing about $227 million of the current Web conferencing market. A Frost and Sullivan forecast projects a 40% Compound Annual Growth Rate ("CAGR") between 2002 and 2010 (as compared with the service provider market which is projected to grow at a 22% CAGR for the same time period). The Software Provider market, based upon its higher growth rate, is expected to outgrow the Service Provider market by the end of 2009.

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 as well. 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, 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. We believe we have 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. 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 four 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. We believe 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, we believe 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 and secure socket layer (SSL). All information within a session can be transmitted between meeting attendees securely without any reduction in performance. We believe 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.

Third, 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. We believe 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.

Fourth, 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. We believe 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.

SALES AND MARKETING FOCUS

To leverage these advantages, our organization continually creates new marketing and sales campaigns that focus in four target markets.

- We sell to prospects that are using other Web conferencing service providers that are ready to migrate to Web conferencing software. We find that these organizations appreciate the cost and feature advantages that our technology offers.
- We target organizations that have a natural fit for highly secure Web conferencing software such as government, military, and financial organizations as well as the companies that supply to these entities.
- We target organizations looking to deploy live, Web-based training. Our software was originally built for training and we have maintained a competitive technology advantage in this area.
- We continue to cross sell all of our products and services to our large database of existing customers.

Marketing has developed a plan that incorporates public relations, tradeshows, Web events, Web marketing initiatives and direct marketing (mail and email) efforts messaged in campaigns that speak to the needs of our specific target markets. The goal of our marketing strategy is to drive new business into our customer base and then cross sell our synergistic Web, audio and event product and drive usage of all products to increase the propensity for our customers to make additional purchases.

The direct sales team is organized by geographic territory and is broken down into distinct groups: Direct Sales sells to organizations that are not yet iLinc customers; Enterprise Sales sells into large existing accounts; and our Event Sales team sells our High-Touch Event Services offering to all sizes of organizations. All of these groups focus their outbound activity on our specific vertical markets of financial services, high technology and professional service organizations. We believe that the target vertical markets have a commonality of meeting four criteria: we have an established customer base in the market; our product feature set is specifically appropriate to the needs of the market; analysts have identified a need within that market for increasing use of Web and audio conferencing; and we believe that we have the potential to capture a portion of the share of such markets.

iLinc has formed relationships with organizations that market and sell our products and services through their sales distribution channels. The relationships can be categorized into those that act as agents which sell on behalf of iLinc and value added resellers (VAR's) that actively sell our products and provide product support typically to their own existing customer base. As of March 31, 2007, we had over 35 organizations selling our products providing indirect sales in the United States and in countries outside the United States, including Canada, the United Kingdom, The Netherlands, France, Germany, Colombia, Mexico, India, Greece, Chile and Japan. Our value added resellers execute agreements to resell our products to their customers through direct sales and in some cases through integration of our products into their products or service offerings. Our distribution agreements typically have terms of one to three years and are automatically renewed for an additional like term unless either party terminates the agreement for breach or other financial reasons. In most of these agreements, the VAR licenses the product from us and resells the product to its customers. Under those VAR agreements, we record only the amount paid to us by the VAR as revenue and recognize revenue when all revenue recognition criteria have been met.

CUSTOMERS

Approximately 4,500 corporate, higher education and government customers use iLinc inside of their organizations for their Web and audio conferencing needs. Our corporate customer list includes notable customers in financial services such as Aetna, Allianz Life, Citigroup, Citizens Financial Group, Guardian Life Insurance, Hilliard-Lyons, JPMorgan Chase and St. Paul Travelers Insurance; technology companies such as EDS, Numara Software, Qualcomm, Sabre Holdings, Inc., Sony and Xerox Corporation. We have more than 80 higher education organizations including Benedictine University, Columbia University, Creighton University, CSU Fullerton, Kent State University, Idaho University, LSU, Marist College, University of New Hampshire, National University, Rutgers University, The State Universities of New York, Tulane and Villanova University. iLinc also has an impressive list of state and federal government clients such as the states of Arizona, Louisiana, Oregon, and Utah; and the U.S. Army, Navy, Coast Guard and the Department of Homeland Security. Our reach includes customers both within the United States, Canada, Mexico and outside North America.

AWARDS AND ACKNOWLEDGEMENTS

We are proud of the recognition received by the Company from leading industry experts including Forrester Research, Gartner and Frost & Sullivan. In May, Gartner Research published the Magic Quadrant for Web Conferencing, 2007 noting iLinc as a visionary. In January 2007, iLinc was identified for the second year in a row as part of the "Best of e-Learning" by e-Learning Magazine. In June 2006, Forrester Research named iLinc as a "Strong Performer" in their report titled "The Forrester WaveTM: Web Conferencing Q2 2006" and recognized iLinc as a "Leading Hosted Web Conferencing Provider." In January 2006, the Company received the 2006 Excellence in Technology Award from industry analyst Frost & Sullivan in which the firm noted that iLinc delivers "...breakthrough technology that addresses real issues facing organizations deploying Web conferencing enterprise-wide." In late 2005, Web conferencing analyst Wainhouse Research noted "iLinc offers a licensing model that supports organizations that have made a strategic commitment to Web conferencing," and in a May 2006 report iLinc was noted to be the "1st virtual classroom product and still a technology leader" by the analyst firm Bersin and Associates. Together with our predecessors, we have been honored with more than 60 awards from notable authorities such as the American Society for Training and Development ("ASTD"), analyst Brandon Hall, and e-Learning Magazine, which selected iLinc as a Best of e-Learning company in 2006. The list of awards includes four National Telly Awards, six Software Service Provider of the Year Awards and two Gold Medals from e-Learning authority Brandon Hall. Software from our organization has taken first place in two Software Shootouts held at the Online Learning conference in which e-Learning professionals decided which products were best-of-class based on functionality and ease of use. Notably, in 2002 our Web conferencing software was voted first place at the synchronous software shootout held at Online Learning Expo besting industry leaders WebEx, Centra and PlaceWare (purchased by Microsoft and now Microsoft Live Meeting). We continue to receive recognition from analysts and notable experts as we maintain a leadership position in the conferencing and collaboration market.

TECHNOLOGY & INTELLECTUAL PROPERTY

Our existing technology and intellectual property were originally developed by organizations that we have acquired, including the assets from the Mentergy and Glyphics transactions with continued enhancement on our part by our own research and development team. We utilize copyright, trademark and patent protection whenever possible to secure our intellectual property assets. We host our software and provide Internet connectivity from our dedicated servers in Phoenix, Arizona. Our data network is redundant in design and is secure from unauthorized access.

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RESEARCH & DEVELOPMENT

The Company invested a substantial portion of its working capital and resources in the continued development of its software and technologies. We employ full-time engineers, programmers and developers that are located in Troy, New York and Phoenix, Arizona, who are constantly focused on developing new features and enhancements to our existing software offering and expanding that offering with new products and services. The primary focus of our research and development efforts is on improving the functionality and performance of the iLinc Suite as well as developing new features that meet changing market demands. In the 2005 fiscal year, we invested over $1.5 million in direct and indirect research and development activities and $1.4 million in the 2006 fiscal year. In the 2007 fiscal year we invested $1.6 million, $367,000 of which we capitalized as we began production of version 9.0 of our Web collaboration software.

CUSTOMER SERVICE

We employ full-time Tier 1 and Tier 2 customer support and technical support representatives, who are located in Troy, New York, Springville, Utah, and through outsourced relationships that provide 24x7 access. We are constantly focused on the delivery of high-quality service and support to our existing customer base and channel partners. We offer varying levels of support, depending upon the maintenance and support agreement executed by the customer, which include telephone support through a toll-free number and an email support request system. We also offer access to self-help information that includes a database of frequently asked questions, quick reference and advanced end-user guides, online tutorials and access to a real-time searchable knowledge database. Our response times vary depending upon the issue, but the vast majority of our customer support questions are addressed during the initial support call. Customer issues and support tickets are tracked within our CRM database for use by our technical support teams and customers searching the knowledge database.

COMPETITION

We believe that our current Web conferencing software has specific and unique characteristics that match the needs of our customers and target markets. The Company intends to leverage these strengths as well as direct product development efforts to continue to enhance the software to meet the specific needs of these markets.

With our emphasis on our Web collaboration four-product suite, we face competition from various Web conferencing and collaboration software companies including WebEx (now Cisco), Microsoft Live Meeting, and Adobe. The Web collaboration, virtual classroom, and Web conferencing industry continues to change and evolve rapidly, and we expect continued consolidation within the industry. We have identified what we believe to be the principal competitive factors in our markets, including: ease of use, breadth and depth of feature set, quality and reliability of products, pricing, security and our ability to develop and support software license sales in combination with hosting.

EMPLOYEES

As of March 31, 2007 we employed 88 employees (including six part-time employees). This included 34 employees at our corporate offices in Phoenix, Arizona and 38 employees in our Springville, Utah facility. We also have ten employees located in our development office in Troy, New York and six employees who work remotely in other states. None of our employees are represented by collective bargaining agreements.

The populations of our functional organizations on March 31, 2007 included 18.5 sales employees, four marketing employees, 24 programming and technical support employees, 35 audio conferencing operators and support employees, and ten finance, executive and administrative employees.

DISCONTINUED OPERATIONS

The Company began its operations in March of 1998, with the simultaneous roll-up of 50 dental practices and an initial public offering. The Company's initial goals were to provide training and practice enhancement services nationwide to our Affiliated Practices using our proprietary Web-based learning management and financial reporting system. Beginning in April of 2000, the Company modified its affiliated service agreements and commensurate with

that change the Company recorded certain charges against earnings during the fiscal years ended March 31, 2002 and March 31, 2001. The Company modified its business plan moving away from its legacy dental practice management business during its fiscal year ended March 31, 2002. Effective January 1, 2004, the Company was no longer engaged in the dental practice management business and has reflected such business segment as a discontinued operation.

ITEM 1A. RISK FACTORS

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 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 sustain operations; foster existing relationships with our 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 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 dependence upon software purchase license sales as opposed to the more ratable subscription model, 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; the timing of revenues and expenses relating to our product sales; and revenue recognition rules. 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 LIMITED FINANCIAL RESOURCES AND MAY NOT REMAIN PROFITABLE.

We have limited financial resources at our disposal. We have long-term obligations that are due in 2010 and 2012 that we will not be able to satisfy without additional debt and/or equity capital and/or ultimately generating sufficient profits and sufficient cash flows from our Web conferencing and audio conferencing operations. If we are unable to remain profitable, we will face increasing demands for capital. We may not be successful in raising additional debt or equity capital and may not remain profitable. As a result, we may not have sufficient financial resources to satisfy our obligations as they come due in the short term.

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

On March 31, 2007, 33,585,431 shares of our common stock were issued and outstanding, net of treasury shares. An additional 16,196,216 shares of our common stock were reserved for issuance that would be issued as the result of the exercise of warrants or the conversion of convertible notes and/or convertible preferred stock. The issuance of these additional shares will reduce the percentage ownership of our existing stockholders. 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.

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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.

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 subscription 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 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 or unwillingness 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 OUR INTERNATIONAL DISTRIBUTOR NETWORK AND US MAY RESULT IN UNANTICIPATED COSTS.

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.

With our focus on our Web and audio conferencing products and services, our growth depends on our ability to continue to develop new features, products and services around that software and product line including the ability to operate our software in non-Windows based operating systems (e.g., MAC and Linux). 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 Act of 2002, the Securities and Exchange Commission adopted rules requiring non-accelerated public companies to include in their annual reports on Form 10-K for fiscal years ending after December 15, 2007 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 for fiscal years ending after December 15, 2008. 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 accounting firm determines that our internal controls are not designed or operating effectively as required by Section 404, our accounting firm may either disclaim its 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 our 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 MAY ACQUIRE OTHER BUSINESSES THAT COULD NEGATIVELY AFFECT OUR OPERATIONS AND FINANCIAL RESULTS AND DILUTE EXISTING STOCKHOLDERS.

We may pursue additional business relationships through acquisitions 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 adversely affect prevailing market prices for our common stock.

ITEM 2. PROPERTIES

We maintain corporate headquarters in Phoenix, Arizona and have occupied that 9,100 square foot Class A facility since the Company's inception in 1998. The Phoenix office can accommodate up to 65 employees and is fully equipped with up-to-date computer equipment and server facilities. On May 5, 2006, the Company extended its lease on its Phoenix location to February 28, 2012. The Phoenix lease requires a monthly rent and operating expenses of approximately $25,000.

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. On July 5, 2006, we amended the New York lease that now expires on June 30, 2009. The New York lease requires a monthly rent and operating expenses of $4,000.

We also maintain offices in Springville, Utah, occupying a Class A facility in two adjacent buildings in approximately 16,000 square feet. The Springville lease expires in January of 2008. The Springville offices can accommodate up to 100 employees and is fully equipped with up-to-date computer equipment. The Springville lease requires a monthly rent and operating expenses of approximately $15,000.

ITEM 3. LEGAL PROCEEDINGS

NONE

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

NONE

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information concerning the executive officers of the Company (ages are as of March 31, 2007):

James M. Powers, Jr.	51	Chairman, President and Chief Executive Officer
James L. Dunn, Jr.	45	Senior Vice President, Chief Financial Officer and General Counsel
Gary Moulton	38	Senior Vice President of Audio Conferencing Services

JAMES M. POWERS, JR.
Chairman, President and Chief Executive Officer

Dr. James M. Powers, Jr. has served as Chairman, President and CEO of the Company since December 1998. Dr. Powers led the Company through its initial growth and acquisition phase and subsequent transformation to an integrated communications company providing Web, audio, video, and Voice-over IP solutions. Dr. Powers joined the Company through the merger with Liberty Dental Alliance, Inc., a Nashville-based company where he was the founder, Chairman, and President from 1997 to 1998. Dr. Powers was a founder and Chairman of Clearidge, Inc., a privately held bottled water company in Nashville, Tennessee from 1993 to 1999, where he led Clearidge through 13 acquisitions over three years to become one of the largest independent bottlers in the Southeast, before selling the company to Suntory Water Group, Inc. Dr. Powers also was a founder and Director of Barnhill's Buffet, Inc., a privately held chain of 48 restaurants in the Southeast with over $100 million in annual revenues, which was sold in early 2006. He received his Bachelor of Science Degree from the University of Memphis, a Doctor of Dental Surgery Degree from The University of Tennessee, and his MBA from Vanderbilt University's Owen Graduate School of Management.

JAMES L. DUNN, JR.
Senior Vice President, Chief Financial Officer and General Counsel

James L. Dunn, Jr., assisted with the formation of the Company and was an integral part of the Company's initial public offering. Since the Company's inception, Mr. Dunn has been responsible for all corporate development activities, including most recently the acquisition of its Web conferencing and audio conferencing assets. Mr. Dunn is an attorney and assumed the role of General Counsel in March of 2000. He managed the legal transition of the Company from its legacy business beginnings to its current Web and audio conferencing focus. Mr. Dunn is also a CPA and assumed the role of CFO in June of 2005. He received his law degree from Southern Methodist University School of Law in 1987 and his Bachelor's Degree in Business Administration-Accounting from Texas A & M University in 1984.

GARY MOULTON
Senior Vice President of Audio Conferencing Services

Gary Moulton brings more than 15 years of sales, management and customer service experience to iLinc Communications. Moulton brings a decades worth of audio services and audio conferencing experience to iLinc, having founded Glyphics Communications in 1995. Moulton grew Glyphics into a leading provider of phone conferencing and audio conferencing events, developing a proprietary online seminar registration system for large audio events. As a member of the Glyphics' Board of Directors and as President and Chief Executive Officer, he was responsible for developing and implementing corporate vision and strategy. Prior to starting Glyphics, Moulton was manager of inside sales and customer service for Cookietree Bakeries, Inc., a national food service company. Moulton also served for four years in the United State Marine Corps.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

MARKET INFORMATION, HOLDERS, AND DIVIDENDS

The Company's common stock has been traded on the American Stock Exchange system under the symbol "ILC" since February 6, 2004. The following table sets forth the range of the reported high and low sales prices of the Company's common stock for the years ended March 31, 2007 and 2006:

2007	HIGH	LOW
First Quarter	$0.65	$0.34
Second Quarter	$0.54	$0.39
Third Quarter	$0.81	$0.49
Fourth Quarter	$0.82	$0.55

2006	HIGH	LOW
First Quarter	$0.38	$0.25
Second Quarter	$0.30	$0.18
Third Quarter	$0.34	$0.15
Fourth Quarter	$0.49	$0.24

As of June 25, 2007, the closing price of our common stock was $0.71 per share and there were approximately 319 holders of record, as shown on the records of the transfer agent and registrar of common stock. The number of record holders does not bear any relationship to the number of beneficial owners of the common stock.

The Company has not paid any cash dividends on its common stock in the past and does not plan to pay any cash dividends on its common stock in the foreseeable future. The Company's Board of Directors intends, for the foreseeable future, to retain earnings to finance the continued operation and expansion of the Company's business.

EQUITY COMPENSATION PLANS

The table below provides information relating to our equity compensation plans as of March 31, 2007.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number Remainin Future Compe (Exclud Refle
Equity compensation plans approved by security holders	3,138,552	$1.11	1
Equity compensation plans approved by security holders	450,000	$2.00	
Equity compensation plans not approved by security holders	----	----	
Total	3,588,552		1

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 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 shares 100% vest after ten years from the date of grant or upon attaining the following price performance criteria: 150,000 shares vest if the share price trades for $4.50 per share for 20 consecutive days; 150,000 shares vest if the share price trades for $8.50 per share for 20 consecutive days; and 150,000 shares vest if the share price trades for $12.50 per share for 20 consecutive days.

On June 23, 2006, the Compensation Committee of the Board of Directors amended the vesting performance criteria hurdles as follows: 150,000 shares vest if the share price trades for $1.00 per share for 20 consecutive days; 150,000 shares vest if the share price trades for $2.00 per share for 20 consecutive days; and 150,000 shares vest if the share price trades for $3.00 per share for 20 consecutive days. All other aspects of the grant remained the same.

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SALES OF UNREGISTERED SECURITIES

There were no sales of unregistered securities during the fiscal year ending March 31, 2007.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data of the Company (AMEX:ILC) that has been derived from the audited consolidated financial statements. Effective January 1, 2004, the Company discontinued its dental practice management services. The Company has restated its historical results to reflect that business segment as a discontinued operation. The Company began its current Web conferencing operations during the 2002 fiscal year. The selected financial data should also be read in conjunction with the Company's consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

STATEMENT OF OPERATIONS DATA:	YEAR ENDED MARCH 31, 2007	YEAR ENDED MARCH 31, 2006	YEAR ENDED MARCH 31, 2005	YEAR ENDED MARCH 31, 2004(*)
Revenues				
Software licenses	$ 4,177	$ 3,014	$ 3,274	$ 2,240
Subscription and audio services	7,501	7,070	5,052	1,195
Maintenance and professional services	2,517	2,448	2,043	2,471
Total revenue	14,195	12,532	10,369	5,906
Cost of revenues and operating expenses	12,372	11,749	13,743	7,293
Income (loss) from operations	1,823	783	(3,374)	(1,387)

Income (loss) from continuing operations before income taxes	131	(1,254)	(5,199)	(2,293)	
Income taxes	85	--	--	--	
Income (loss) from continuing operations	46	(1,254)	(5,199)	(2,293)	
Income (loss) from discontinued operations	10	83	(128)	275	
Net income (loss)	56	(1,171)	(5,327)	(2,018)	
Preferred stock dividends	(153)	(130)	(105)	(75)	
Imputed preferred stock dividends	--	(55)	--	(247)	
Loss available to common shareholders	$ (97)	$ (1,356)	$ (5,432)	$ (2,340)	
Loss per common share - basic and Diluted					
From continuing operations	$ 0.00	$ (0.05)	$ (0.23)	$ (0.16)	
From discontinued operations	0.00	--	--	0.02	
Net loss per common share	$ 0.00	$ (0.05)	$ (0.23)	$ (0.14)	$ (0.
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 1,057	$ 466	$ 532	$ 292	
Working capital (deficit)	912	(1,941)	(4,251)	(3,113)	
Assets of discontinued operations	--	--	114	301	
Total assets	18,338	16,000	17,229	12,460	
Long-term debt, less current maturities	8,399	8,467	8,822	6,404	
Long-term debt discount and beneficial conversion feature..........................	(993)	(1,493)	(2,120)	(1,960)	
Liabilities of discontinued operations	--	53	263	--	
Total shareholders' equity	6,451	4,370	3,670	3,366	

(*) Effective January 1, 2004, the Company discontinued its dental practice management services. The Company has restated its historical results and selected financial data to reflect its dental segment as a discontinued operation.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth summary quarterly results of operations for the Company for the years ended March 31, 2007 and 2006:

2007	FIRST QUARTER	SECOND QUARTER	THIRD QUARTE
		(IN THOUSANDS, EXCE PER SHARE AMOUNTS	
Net revenue	$ 3,605	$ 3,451	$ 3,6
Cost of revenues and operating expenses	3,054	2,912	3,1
Income from operations	551	539	5
Income (loss) from continuing operations before income taxes ..	123	157	(
Income taxes	--	--	
Income (loss) from continuing operations	123	157	(

Income (loss) from discontinued operations	11	(1)	
Income taxes	--	--	
Net income (loss)	$ 134	$ 156	$ (
Income taxes	--	--	
Income (loss) available to common shareholders	$ 95	$ 116	$ (
Basic and diluted per share data: (1)			
Income (loss) per common share from continuing operations	$ 0.00	$ 0.00	$ (0.
Income (loss) per common share from discontinued operations	$ 0.00	$ 0.00	$ (0.
Weighted average common share outstanding:			
Basic	28,818	33,020	33,1
Diluted	28,944	33,227	33,1

2006 (2)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTE
		(IN THOUSANDS, EXCE PER SHARE AMOUNTS	
Net revenue	$ 2,673	$ 3,005	$ 3,2
Cost of revenues and operating expenses	3,131	2,653	2,8
(Loss) income from operations	(458)	352	4
(Loss) income from continuing operations before income taxes	(892)	(526)	1
Income taxes	--	--	
(Loss) income from continuing operations	(892)	(526)	1
Income from discontinued operations	7	5	
(Loss) income	$ (885)	$ (521)	$ 2
(Loss) income available to common shareholders	$ (910)	$ (602)	$ 1
Basic and diluted per share data: (1)			
Loss per common share from continuing operations	$ (0.04)	$ (0.02)	$ (0.
Income per common share from discontinued operations	--	--	
Weighted average common share outstanding:			
Basic	24,145	25,855	27,1
Diluted	24,145	25,855	27,1

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(1) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share does not equal the total computed for the year due to stock transactions that occurred.

(2) Amounts previously reported in prior periods have changed due to reclassifications.

ITEM 7. 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.

COMPANY OVERVIEW

We sell our software solutions to large and medium-sized corporations inside and outside of the Fortune 1000. We market our products using a direct sales force and a distribution channel consisting of agents, distributors, value added resellers and OEM partners. We allow customers to choose between purchasing a perpetual license and subscribing to a term license, thereby providing flexibility in pricing and payment methods. Our revenues are derived from a mixture of sales of licenses of software, monthly recurring revenues from annual maintenance, hosting and support agreements and from audio conferencing products and services.

Our Web collaboration software is sold on a perpetual license or periodic license basis. A customer may choose to acquire a one-time perpetual license (the "Purchase Model") or may rent our software on a periodic basis on either a per-seat, per-month or per-minute basis (the "Subscription Model"). Should the customer choose to acquire the software using the Purchase Model, then it may either elect to host our software behind its own firewall or it may choose to have iLinc host it for the customer, depending upon the customer's preferences, budget and IT capabilities. Customers who select the Purchase Model, whether hosted by iLinc or the customer, may also subscribe for ongoing customer support and maintenance and software upgrade services, by entering into a support and maintenance contract with a term from one to five years. The annual maintenance and support fee charged is initially based upon a percentage of the purchase price that varies between 12% and 18% of the license fee paid for the perpetual licenses, with the percentage depending upon the contractual length and the timing of payment of the annual maintenance and support agreement. If a customer chooses to have iLinc host its Purchase Model licenses, then the customer is also charged an annual hosting fee equal to 10% of the Purchase Model license fee that was paid for the perpetual license.

During fiscal 2006, iLinc launched its Enterprise Unlimited perpetual licensing model that enables customers to pay a one-time up-front fee for unlimited, organization-wide Web conferencing, as well as a named-user model that permits a host to subscribe for a limited use room. Those customers who qualify for the iLinc Enterprise Unlimited site license may subscribe to an unlimited use license. The initial iLinc Enterprise Unlimited license fee is determined based upon the number of employees within the customer's organization and various other factors. The annual maintenance and support fees and hosting fees associated with an iLinc Enterprise Unlimited license are then based upon a fixed price or upon an associated rate per-seat license that is active on each annual anniversary of the iLinc Enterprise Unlimited license agreement. Customers may expand the number of active seats available to them at any time with a corresponding increase in annual maintenance and hosting fees being charged.

Customers choosing the Subscription Model pay a fee per seat (concurrent connection) on either a per-month or per-year basis depending upon the length and term of the subscription agreement. Hosting and maintenance are included as a part of the monthly or annual rental fees. Customers may also obtain Web conferencing and audio conferencing on a per-minute basis using the iLinc On-Demand product. Those choosing the iLinc On-Demand product pay on a monthly basis typically without contractual commitment.

In addition to the Web conferencing and audio conferencing products and services, we offer custom content development services through a subcontractor relationship and an off-the-shelf online library of content includes an online mini-MBA program co-developed with the Tuck School of Business at Dartmouth College. These other services are a small portion of our overall revenue base and will likely phase out as an offered service over the next three years.

PERFORMANCE MEASURES AND INDICATORS

In evaluating our operating performance, we consider levels of revenues, gross profit, operating income and net income to be important indicators. Over the past three fiscal years, we have succeeded in increasing revenues at a faster rate than our cost of revenues and operating expenses. Therefore, while revenues, cost of revenues and operating expenses all have increased during this period, total cost of revenues as a percentage of revenues and operating expenses as a percentage of revenues each have decreased over the past three fiscal years. Our goal is for this trend to continue as we seek to manage increases in expenses at the same time we seek to increase revenues.

In evaluating our liquidity, we evaluate levels of current assets, current liabilities and accounts receivable, aging of accounts receivable and maturities of debt and obligations under long term leases. Our levels of current assets, including accounts receivable, at March 31, 2007 were significantly higher than our levels of current assets at March 31, 2006, while our current liabilities at March 31, 2007 were approximately $700,000 less than our level of current liabilities at March 31, 2006. As a result, we had working capital of $912,000 at March 31, 2007 compared to a working capital deficit of $1.9 million at March 31, 2006. Our accounts receivable, net of allowance for doubtful accounts, were $2.5 million and $2.2 million at March 31, 2007 and March 31, 2006, respectively. Accounts receivable increased, which was consistent with increased revenues when comparing fiscal 2007 to fiscal 2006. The aging of

receivables has remained consistent when comparing March 31, 2007 to March 31, 2006, with accounts receivable under 30 days making up 87% and 85% of the total receivable balance, respectively. As indicated below, in the table under the caption "Contractual Obligations" at March 31, 2007 long term debt due in less than one year, capital lease obligations due in less than one year, interest expense for the coming year and operating lease obligations for the coming year aggregated $143,000, $45,000, $1.0 million and $539,000 respectively. We anticipate that cash flow from operations should be sufficient to allow us to meet these obligations without raising additional capital.

As indicators of future financial performance, our management evaluates current number of seats (concurrent license) sold, average sales price per transaction, average sales cycle, quota achievement by the direct sales staff, the number of current transactions, the average sales amount per transaction, the percentage each product sold contributes to total revenue and the trends indicated by these factors.

External factors that our management considers in analyzing our performance include projected growth rates for our industry, rates of penetration of use of our product categories in the corporate sector and telecommunications growth and rate structures. We consider these factors important since they permit us to better project capital needs and growth trends that support our assertions of profitability and cash flow. Analysis of these trends indicates that we are having increasing success from our direct sales staff, with that success is likely to translate into increasing revenue and an increasing bottom line should overhead trends remain consistent with historical patterns. We expect overhead to remain relatively flattened, except for incremental increases in sales and marketing costs associated and in proportion to revenue growth. We see increasing demand for audio conferencing and web conferencing usage in the business, education and government sectors alike, and we expect these trends to continue over the next three years.

The following table shows certain items from our income statement as a percentage of revenues:

	YEAR ENDED MARCH 31, 2007		YEAR ENDED MARCH 31, 2006	
Revenues				
Software licenses........................	$ 4,177	29.0%	$ 3,014	24.1%
Subscription and audio services...........	7,501	53.0%	7,070	56.4%
Maintenance and professional services.....	2,517	18.0%	2,448	19.5%
Total revenues........................	14,195	100.0%	12,532	100.0%
Cost of revenues				
Software licenses........................	131	0.9%	51	0.4%
Subscription and audio services...........	3,642	25.7%	3,881	31.0%
Maintenance and professional services.....	787	5.5%	827	6.6%
Amortization of acquired developed technology............................	269	1.9%	376	3.0%
Total cost of revenues...............	4,829	34.0%	5,135	41.0%
Gross profit	9,366	66.0%	7,397	59.0%
Operating expenses				
Research and development..................	1,276	9.0%	1,392	11.1%
Sales and marketing.......................	3,696	26.0%	3,075	24.5%
General and administrative................	2,571	18.1%	2,147	17.1%
Total operating expenses.............	7,543	53.1%	6,614	52.8%
Income (loss) from operations...............	$ 1,823	12.8%	$ 783	6.2%

RESULTS OF OPERATIONS

REVENUES FROM CONTINUING OPERATIONS

Total revenues generated from continuing operations for the 12 months ended March 31, 2007 ("fiscal 2007") and March 31, 2006 ("fiscal 2006") were $14.2 million and $12.5 million, respectively, an increase of $1.7 million or 13%. Software license revenues increased $1.2 million or 39% from $3.0 million in fiscal 2006 to $4.2 million in fiscal 2007, as the result of agreements with OEM licensing fees and channel sales of $694,000 and off-the-shelf courseware of

$204,000. In addition, direct sales increased by $265,000 as a result of an increase in the number of licenses and the price per license sold. Subscription and audio services revenues increased $431,000 or 6% from $7.1 million in fiscal 2006 to $7.5 million in fiscal 2007, as the result of increased audio per minute usage of $280,000 and an increase in hosting revenues of $151,000, which are driven by increases in license sales year on year and sustaining the customer base. Maintenance and professional services revenues increased $69,000 or 3% from $2.4 million in fiscal 2006 to $2.5 million in fiscal 2007, as the result of an increase in maintenance fees of $247,000 from renewals as the customer base continues to grow. In addition, we recognized an increase in training, storage and recording revenues of $84,000. The increases were partially offset by a decrease in our custom content revenues of $253,000. This is a variable component of our revenues related to work performed by our subcontractor, Interactive Alchemy. For fiscal 2007, software license revenues were 29% of total revenue, subscription and audio services revenues were 53% of total revenue and maintenance and professional services revenues were 18% of total revenue, as compared to 24%, 56% and 20%, respectively, for fiscal 2006. We expect software license revenues and indirect subscription license revenue to continue to become a larger percentage of total revenues as total revenues increase given our focus on the software Purchase Model and indirect sales model. We expect sales from custom content services and off-the-shelf license sales decline.

Total revenues from continuing operations generated for fiscal 2006 and fiscal 2005 were $12.5 million and $10.4 million, respectively, an increase of $2.1 million or 20%. Software license revenues decreased $260,000 or 8% from $3.3 million in fiscal 2005 to $3.0 million in fiscal 2006 as the result of a reduction in non-core off-the-shelf sales. Subscription and audio services revenue increased $2.0 million or 39% from $5.1 million in fiscal year 2005 to $7.1 million in fiscal 2006, as a result of recognition of audio services revenue for a full 12 months as opposed to ten months in fiscal 2005 as the result of the Glyphics transaction. Maintenance and professional services revenue increased $405,000 or 20% from $2.0 million in fiscal 2005 to $2.4 million in fiscal 2006, as the result of an increase in license revenue. Since maintenance and hosting revenues are sold with license sales, increases in license revenue will cause a proportionate increase in maintenance revenue, a trend we expect to continue as license revenues rise. For fiscal 2006, software license revenues were 24% of total revenue, subscription and audio services revenues were 56% of total revenue and maintenance and professional services revenue were 20% of total revenues, as compared to 37%, 49% and 20%, respectively, for fiscal 2005.

COST OF REVENUES FROM CONTINUING OPERATIONS

Cost of software license revenues is driven by the types of software licenses sold. It consists of royalty fees paid on certain off-the-shelf products, if any, sold, and sales rebates to distribution partners on the sale of certain software products. Cost of software license revenues for fiscal 2007 and fiscal 2006 were $131,000 and $51,000 respectively, an increase of $80,000 or 150%. The increase was related to an increase in royalty fees arising from the sale of certain off-the-shelf courseware. Cost of software license revenue was approximately 0.9% of total revenues in fiscal 2007 and approximately 0.4% of total revenues in fiscal 2006. We expect the cost of software license revenues to remain a very small percentage of total license revenue, which will arise only from royalties which may be due from the sale of off-the-shelf courseware. Cost of software license revenues for fiscal 2006 and fiscal 2005 were $51,000 and $154,000, respectively, a decrease of $103,000 or 67%. The decrease is related to a decrease in third party usage fees for the Company's non-core off-the-shelf product. Cost of software license revenue was approximately 0.4% of total revenues in fiscal 2006 and approximately 1.5% of total revenues in fiscal 2005. We expect the cost of revenue for license sales to remain a very small fraction of license revenue that is not likely to exceed 2%.

Cost of subscription and audio services revenue uses a fully allocated overhead method that includes an allocation of salaries and allocable expenses resulting from the delivery of our hosted Web conferencing services, together with all expenses associated with the delivery of our audio conferencing services. Expenses related to our audio conferencing services that are accrued as cost of revenues include salaries and allocable expenses of our telephone operators, allocated facilities costs, allocated technical support costs for support services, together with all direct telecommunication expenses for long distance and local dial tone connectivity, and finally allocable depreciation and amortization expense related to our audio conferencing assets. Cost of subscription and audio services for fiscal 2007 and fiscal 2006 were $3.6 million and $3.9 million, respectively, a decrease of $239,000 or 6%. The decrease was primarily a result of the complete depreciation in May 2006 of certain audio conferencing and computer equipment, which resulted in a decrease in depreciation expense of $620,000 in fiscal 2007. The decrease was partially offset by increases in telecommunications costs of $314,000 related to the increase in audio customer per-minute usage, salaries expense of $57,000 related to an increase in operators to accommodate the increased usage, as well as, 2007 was the first fiscal year we were required to record stock compensation expense, and office expenses of $83,000. The increase in office expense is primarily due

to a one-time elimination of liabilities associated with the Glyphics acquisition in fiscal 2006 primarily related to maintenance expense for audio bridges that was determined not to be due by the vendor. Overall, we expect the cost of audio conferencing services to rise with increases in audio conferencing revenue and the percentage to remain relatively consistent for the next three years. Cost of subscription and audio conferencing revenue was approximately 25% of total revenues in fiscal 2007 and approximately 31% of total revenues in fiscal 2006.

Cost of subscription and audio services revenues for fiscal 2006 and fiscal 2005 were $3.9 million and $3.8 million, respectively, an increase of $82,000 or 2%. The overall increase in costs was due to the inclusion of revenues resulting from the Glyphics audio conferencing acquisition for a full year in fiscal 2006 compared to ten months in fiscal 2005. The increase was partially offset by a reduction of estimates of liabilities assumed with that acquisition of $355,000, primarily in the second and third quarters of fiscal 2006. During fiscal 2006, we determined through review of the liabilities and confirmation with Glyphics vendors that these liabilities were not owed and could be eliminated as a one-time reduction to expenses. Cost of subscription and audio conferencing revenues was approximately 31% of total revenues in fiscal 2006 and approximately 37% of total revenues in fiscal 2005.

Cost of maintenance and professional services' revenue include an allocation of technical support personnel and facilities costs allocable to those services revenues consisting primarily of a portion of our facilities costs, communications and depreciation expenses. However, by far the largest and most variable component of the cost of maintenance and professional services arises from the amount due to our third-party subcontractor, which is a fixed proportion of the custom content revenue earned. The cost of maintenance and professional services for fiscal 2007 and fiscal 2006 was $787,000 and $827,000, respectively, a decrease of $40,000 or 5%. Revenues from our custom content subcontractor were down; therefore, the decrease in cost of maintenance and professional services directly correlates to the decreased revenues. Cost of maintenance and professional services revenue was approximately 7% of total revenues in each of fiscal 2007 and fiscal 2006. We expect that the increase in cost of maintenance and professional services revenue will vary proportionately and directly with the amount of professional services revenue earned in a quarter. Cost of maintenance and professional services revenue for fiscal 2006 and fiscal 2005 was $827,000 and $792,000, respectively, an increase of $35,000 resulting from an increase in custom content revenues. Cost of maintenance and professional services revenue was approximately 7% of total revenues in fiscal 2006 and approximately 8% of total revenue in fiscal 2005.

Amortization of acquired developed technology consists of amortization of acquired software technology and other assets acquired in the Mentergy, Glyphics and Quisic acquisitions. Amortization of acquired technology for fiscal 2007 and fiscal 2006 was $269,000 and $376,000, respectively, a decrease of $107,000 which is related to the full amortization in fiscal 2006 of the software technology from the Mentergy acquisition. Amortization of acquired developed technology for fiscal 2006 and fiscal 2005 was $376,000 and $451,000, respectively, a decrease of $75,000 which is related to the full amortization of the software technology from the Quisic acquisition.

GROSS PROFIT

As the result of the foregoing, the Company's gross profit (total revenues less total cost of revenues) increased from $5.2 million in fiscal 2005 to $7.4 million in fiscal 2006 to $9.4 million in fiscal 2007. We expect to see gross profit increase as revenues increase in dollar amount and as a percentage as revenues rise since most of the cost of sales are either fixed (amortization) or are associated only with audio conferencing and custom-content service revenue.

OPERATING EXPENSES FROM CONTINUING OPERATIONS

Total operating expenses consist of research and development expenses, sales and marketing expenses and general and administrative expenses. We incurred operating expenses of $7.5 million in fiscal 2007, an increase of $929,000 or 14% from $6.6 million in fiscal 2006. This increase is due to increases in sales and marketing expenses of $621,000, and in general and administrative expenses of $424,000, which was partially offset by a decrease in research and development expense of $116,000. Fiscal 2006 operating expenses were $6.6 million, a decrease of $1.8 million or 21% from fiscal 2005 operating expenses of $8.5 million. This decrease was due to a decrease in research and development costs of $153,000, a decrease in sales and marketing costs of $1.0 million and a decrease in general and administrative costs of $777,000. Total operating expenses were 53%, 53% and 82% of total revenues in fiscal 2007, 2006 and 2005, respectively. In fiscal 2006, our management established a program to reduce operating expenses, the results of which are reflected in our levels of operating expenses for fiscal 2007 and fiscal 2006 as compared to fiscal 2005.

Research and development expenses represent expenses incurred in connection with the continued development and enhancement of our software products and new versions of our software. Those costs consist primarily of salaries and benefits, telecommunication allocations, rent allocations, computer

equipment allocations and allocated depreciation and amortization expense. Research and development expenses for fiscal 2007 and fiscal 2006 were $1.3 million and $1.4 million respectively, a decrease of $116,000 or 8%. During the first quarter of fiscal 2007, we began capitalizing identified direct expenses associated with a specific software development upon achieving technological feasibility for version 9.0 of our Web collaboration software in accordance with SFAS No. 86, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE TO BE SOLD, LEASED, OR OTHERWISE MARKETED. We will continue to capitalize those direct costs until the new software product is ready for distribution and sale to our customers. Once the product is released, we will amortize these software development costs over a three year period. Most of the decrease in research and development expenses for fiscal 2007 is attributable to the capitalization of those software development costs that would otherwise have been expensed. For example, salary and benefit expense and professional services expenses attributable to research and development expense in fiscal 2007 decreased by $102,000 and $95,000, respectively, but a substantial portion of this reduction represents expense that was incurred, but capitalized. Office expense allocated to research and development increased by $99,000 in fiscal 2007 because an annual quality assurance service contract accounted for as a prepaid asset began to be amortized as well as other new annual subscription software contracts during the period. Taking into account the decrease in current expense in fiscal 2007 resulting from the capitalization of version 9.0 software development costs and the increase in expense anticipated from amortization of those costs in fiscal 2008, accompanied by an increase in salary and benefit expense since a portion of that expense had been capitalized in fiscal 2006 and 2007, we expect research and development costs to increase in fiscal 2008. Research and development expense was approximately 9% of total revenues in fiscal 2007 and approximately 11% of total revenues in fiscal 2006.

Fiscal 2006 research and development expenses were $1.4 million, a decrease of $153,000 or 10% from fiscal 2005 research and development expenses of $1.5 million. The decrease is primarily the result of decreased salaries and benefits of $178,000 related to an overall decrease in the number of employees dedicated to research and development in fiscal 2006. Research and development expense was approximately 11% of total revenues in fiscal 2006 and approximately 15% of total revenues in fiscal 2005.

Sales and marketing expenses consist primarily of sales and marketing salaries and benefits, and also include allocated travel and entertainment costs, allocated advertising and other marketing expenses. Sales and marketing expenses were $3.7 million and $3.1 million for fiscal 2007 and fiscal 2006, respectively, an increase of $621,000 or 20%. The increase was a result of increased expenses in advertising and marketing of $576,000 and in professional services of $85,000. Sales and marketing expenses were 26% of total revenue in fiscal 2007 and 25% of total revenue in fiscal 2006. We expect sales and marketing expenses to increase in amount as revenues increase, but expect that the percentage of sales and marketing expenses incurred in relation to total revenue to remain consistent.

Sales and marketing expenses were $3.1 million and $4.1 million for fiscal 2006 and fiscal 2005, respectively, a decrease of $1.0 million or 24%. The decrease primarily resulted from decreased salaries and related benefits of $547,000 due to a decrease in the average number of sales and marketing employees, decreases in marketing expenses, trade show attendance and advertising costs resulting from a cost reduction program we implemented in August 2005. Overall, overhead was reduced primarily in the second and third quarter of fiscal 2006. In fiscal 2006 as compared to fiscal 2005, marketing expenses decreased by $298,000, travel and entertainment expenses decreased $51,000, recruiting fees decreased by $57,000 and general office and other overhead expenses decreased by $154,000. Sales and marketing expense in fiscal 2006 also included costs related to the amortization of customer lists and intangibles from the Glyphics acquisition of $200,000. Sales and marketing expenses were 25% of total revenue in fiscal 2006 and 39% of total revenue in fiscal 2005.

General and administrative expenses consist of company-wide expenses that are not directly related to research and development or sales and marketing activities, with the bulk of those general and administrative expenses comprised of salaries, rent and the costs directly associated with being a public company, including accounting costs, legal costs and fees. During fiscal 2007 and 2006, general and administrative expenses from continuing operations were $2.6 million and $2.1 million, respectively, an increase of $424,000 or 20%. The increase is primarily a result of increased office expenses of $134,000 resulting from investments in annual software subscriptions for a new accounting general ledger package, an equity administration package and a human resources package, originally recorded as prepaid assets and amortized to office expense. In addition general expenses that were previously allocated to all departments in fiscal 2006, were being expensed directly to general and administrative expenses. General and administrative expenses also consisted of increased salaries and benefits of $164,000 resulting from fiscal 2007 being the first year we recognized stock option compensation expense, net of a decrease in professional services expense of $76,000 due to a change in the mix between full-time employees and contractors, increased telecommunications expenses of $54,000, an increase in bad debt expense of $35,000, a decrease in gain on sale of assets of $33,000 and increased travel and entertainment of $30,000. In

addition, other taxes increased $117,000 as a result of a reduction in tax liability of $81,000 for the three months ended December 31, 2005 related to the release of a tax liability that was recorded as an estimate as part of the Glyphics acquisition. The overall increase in general and administrative expenses were partially offset by decreases in legal fees of $20,000 and board and investor relations expenses of $15,000. General and administrative expenses from continuing operations were 18% of total revenues in fiscal 2007 and 17% of total revenues in fiscal 2006

During fiscal 2006 and 2005, general and administrative expenses from continuing operations were $2.1 million and $2.9 million, respectively, a decrease of $777,000 or 27%. General and administrative expenses decreased primarily due to an expense management initiative led by management, which took effect primarily in the second and third quarters of fiscal 2006. The overall decrease in general and administrative expense was primarily comprised of decreases in bad debt expense of $102,000, salaries and related benefits of $21,000, contract labor of $61,000, accounting fees of $198,000, consulting fees of $94,000, recruiting fees of $33,000, legal fees of $21,000 and investor relations expense of $23,000. Tax liabilities also decreased by $83,000 of which $81,000 related to the release of a tax liability that was recorded as an estimate as part of the Glyphics acquisition. After further review and confirmation from the tax authority, the Company determined that the tax liability would not be realized, and therefore the liability was eliminated and a corresponding reduction of the expense was recorded as a one-time reduction. In addition, in fiscal 2006, we recognized a gain on the sale of fixed assets of $40,000. General and administrative expenses from continuing operations were 17% of total revenue in fiscal 2006 and 28% of total revenue in fiscal 2005.

EARNINGS FROM OPERATIONS

For fiscal 2007, we reported earnings from operations of $1.8 million as compared to earnings from operations of $783,000 for fiscal 2006, an increase of $1.0 million or 133%. We posted income from operations of $783,000 for fiscal 2006 and a loss from operations of $3.4 million for fiscal 2005, a positive change of $4.2 million.

We expect to continue to increase earnings from operations by increasing revenues at a faster rate than our increases in expenses.

INTEREST EXPENSE FROM CONTINUING OPERATIONS

Interest expense from continuing operations on outstanding debt instruments for fiscal 2007 and fiscal 2006 was $1.0 million and $1.0 million, respectively, a decrease of $48,000 or 5%. This decrease was the result of paying off shareholders notes and debt. Non-cash interest expense, arising from the beneficial conversion feature of our debt, for fiscal 2007 and fiscal 2006 was $531,000 and $856,000, respectively, a decrease of $325,000 or 38%. This decrease resulted from conversions in fiscal 2006, which accelerated the amortization of the beneficial conversion feature related to the debt converted.

Interest expense from continuing operations paid on outstanding debt instruments for fiscal 2006 and fiscal 2005 was $1.0 million and $1.1 million, respectively, a decrease of $40,000 or 4% primarily due to the reduction in outstanding debt. Non-cash interest expense, arising from the beneficial conversion feature of our debt, for fiscal 2006 and fiscal 2005 was $856,000 and $853,000, respectively, an increase of $3,000 or less than 1%.

We expect interest expense from continuing operations to increase slightly in fiscal 2008 as the result of (i) the increased interest rate accruing on our Senior Notes due 2010 from 10% to 12% per annum (which began in January 2007) in connection with the agreement of the holders of those Senior Notes to extend the Senior Notes' maturity from July 15, 2007 to July 15, 2010 and (ii) the amortization discussed below under the caption "Loss on Extinguishment of Debt." We expect non-cash interest expense resulting from the beneficial conversion feature of our debt to remain consistent in fiscal 2008, because the amortization is straight-line. Should there be any debt conversions in fiscal 2008, the interest will increase in order to accelerate the beneficial conversion feature related to the proportion of debt converted.

INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

The Company recorded income tax expense of $85,000. This expense resulted from the recognition of the deferred income tax liability related to the tax deductible goodwill recognized on the Company's purchase of Quisic and LearnLinc. The Company has recorded a valuation allowance for its deferred tax assets due to the lack of profitable operating history. The Company recorded a valuation allowance for its deferred tax asset because it concluded it is not likely it would be able to realize the tax assets due to the lack of profitable operating history of its implementation of the Web conferencing and audio conferencing business plan. Based on the financial results for the year ending March 31, 2007, the Company has begun to exhibit the ability to generate taxable income. In the event the Company was to determine that it would be able to realize its deferred tax assets in the future, an adjustment to the deferred tax asset would increase net income through a tax benefit in the period such a determination was made the Company has met the more likely than not threshold for such recognition.

The Company recorded no tax expense during fiscal 2006 and 2005 as a result of the losses it incurred in those years.

LOSS ON EXTINGUISHMENT OF DEBT

In December, 2006, we negotiated a modification of the terms our Senior Notes, to extend the maturity date from July 15, 2007 to July 15, 2010. In exchange for the extension, the interest rate increased from 10% per annum to 12% per annum, with the new, increased interest rate beginning to accrue on January 16, 2007, and continuing thereafter at that rate until maturity or the Senior Note is fully paid. All other terms and provisions of the Senior Notes remained unchanged. In connection with this matter, the placement agent received a commission of $87,000 together with a warrant to purchase 100,000 shares of our common stock at an exercise price of $0.66 per share. The warrant has a three year term which expires in December 2009. Also, in connection with this matter, the note agent received an expense reimbursement of $14,000. In accordance with EIFT 96-19, DEBTOR'S ACCOUNTING FOR A MODIFICATION OR EXCHANGE OF DEBT INSTRUMENTS, the debt extension was accounted for as an extinguishment of the existing debt and the creation of the new debt. As a result, we recorded a one-time loss on extinguishment of debt of $162,000 resulting from the acceleration of interest expense accounted for as debt discount and deferred offering costs under the original terms of the senior debt. The direct expenses of $101,000 and the estimated fair value of the warrant of $42,000 were recorded as a deferred offering cost and both are being amortized as a component of interest expense over the term of the Senior Notes.

RESULTS OF DISCONTINUED OPERATIONS

Effective January 1, 2004, we discontinued our dental practice management services. Results of operations from this segment are presented as discontinued operations for fiscal years 2007, 2006 and 2005 in accordance with SFAS 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES. We do not expect to recognize further income or incur further expenses related to our discontinued legacy practice management business.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

Historically, we have generated cash from capital raising activities and from cash flow from operations. We have used cash to fund our operations and for research and development activities. In June 2006, we raised $2.0 million of gross proceeds in a private placement of 5.4 million shares of common stock. Notes 9 and 10 to our audited financial statements at and for fiscal years 2005, 2006 and 2007 contain detailed information regarding our capital raising activities prior to the June 2006 private placement. Also, the discussion below under the caption "Outstanding Preferred Stock and Indebtedness" explains some of the impact events surrounding our capital raising activities have had on our financial statements.

At March 31, 2007, we had a working capital surplus of $912,000 compared to a working capital deficit of $1.9 million at March 31, 2006. Total current assets were $4.9 million at March 31, 2007 compared to $2.7 million at March 31, 2006. The increase in total current assets results principally from generation of cash from proceeds of a private placement in June 2006 of $2.0 million and increased cash flow from operations as well as an increase of approximately $323,000 in net accounts receivable resulting from increased levels of sales. Our accounts receivable, net of allowance for doubtful accounts were $2.5 million and $2.2 million at March 31, 2007 and March 31, 2006, respectively. The increase in receivables is consistent with an increase in revenues year on year. The aging of receivables has remained consistent at March 31, 2007 when compared to March 31, 2006, with accounts under 30 days comprising 87% and 85% of the total receivable balance, respectively. Also contributing to the increase in total current assets were an increase of approximately $736,000 in prepaid expenses and other current assets as the result of the issuance of a warrant on July 1, 2006 for up to 1,000,000 shares of the Company's common stock to an agent. The warrant is subject to vesting provisions based on net collected revenue targets achieved through the agent and certain value added resellers over a five year period, effective June 30, 2006. As of March 31, 2007, none of the revenue targets had been achieved. As a result, we recorded a prepaid asset and corresponding additional paid-in capital of $467,000 as the fair value. We also had an increase in contracts related to annual subscription software agreements related to research and development and accounting activities that we

prepaid in addition to an increase in annual sales and marketing agreements we initiated during fiscal 2007. Total current liabilities were $4.0 million at March 31, 2007 compared to $4.7 million at March 31, 2006. Contributing to the decrease in current liabilities were a $1.1 million decrease in accrued liabilities resulting from payments of a royalty earn-out of $1.1 million related to our purchase of certain assets from Mentergy, Inc., as well as, reductions of $56,000 in the current portion of long-term debt, $88,000 in trade accounts payable and $25,000 in current portion of capital lease liabilities. Deferred revenue increased from $566,000 to $1.5 million at March 31, 2007 compared to $917,000 at March 31, 2006, as the result of increased license sales and renewals based on sustaining our customer base.

CONTRACTUAL OBLIGATIONS

The following schedule details all of the Company's indebtedness and the required payments related to such obligations at March 31, 2007 (IN THOUSANDS):

	TOTAL	DUE IN LESS THAN ONE YEAR	DUE IN YEAR TWO	DUE IN YEAR THREE	DUE IN FOUR FIV
Long term debt*.................	$ 8,542	$ 143	$ 72	$ 79	$ 8
Capital lease obligations*......	268	45	63	71	
Interest expense................	4,395	1,024	1,015	1,000	1
Operating lease obligations.....	1,922	539	384	345	
Base salary commitments under employment agreements........	1,017	575	442	--	
Total contractual obligations...	$ 16,144	$ 2,326	$ 1,976	$ 1,495	$ 10

*EXCLUDES INTEREST.

The lease obligations above include commitments in accordance with amendments to the lease for the Phoenix location that was renegotiated and extended subsequent to March 31, 2007 (see Note 16 in Notes to Consolidated Financial Statements).

We plan to continue to focus on managing overhead while increasing revenue in an effort to solidify our working capital position. We believe that we will have sufficient working capital and liquidity to meet our operating needs, fund our planned research and development activities and to satisfy our contractual obligations in fiscal 2008 without the need to raise additional capital.

CASH FLOWS FROM CONTINUING OPERATIONS

Cash provided by operating activities was $407,000 and $634,000 during fiscal 2007 and 2006, respectively. Cash used by operating activities was $2.6 million during fiscal 2005. In fiscal 2007, cash provided by operating activities was primarily attributable to non-cash expenses of depreciation and amortization of $959,000, non-cash accretion of debt discount to interest expense of $380,000, income from continuing operations of $46,000, loss on debt extinguishment of $162,000 due to the extension of our Senior Notes, non-cash stock option expense of $151,000, an increase in the provision for bad debts of $145,000 and an increase of $442,000 in deferred revenue. These items were offset by increases in accounts receivable of $469,000, prepaid expenses and other current assets of $37,000 and a decrease in accounts payable and accrued liabilities of $1.5 million. Depreciation and amortization expense was significantly less in fiscal 2007 than fiscal 2006 because a portion our assets were fully depreciated in May 2006. Fiscal 2007 was the first year in which we were required to recognize non-cash stock option expense.

Cash provided by operating activities was $634,000 during fiscal 2006. Cash provided by operating activities during fiscal 2006 was primarily attributable to non-cash expenses of depreciation and amortization of $1.7 million, accretion of debt discount to interest expense of $626,000 and net debt conversion expense of $249,000. These items were partially offset by increases in accounts receivable of $352,000, decreases in accounts payable and accrued liabilities of $452,000 and a net loss of $1.3 million.

Cash used in operating activities was $2.6 million during fiscal 2005. Cash used in operating activities during fiscal 2005 was primarily attributable to a net loss of $5.2 million and increases in accounts receivable of $450,000. These items were partially offset by increases in accounts payable and accrued liabilities of $465,000 and non-cash expenses and revenues totaling $2.6 million.

CASH FLOWS FROM INVESTING ACTIVITIES

Cash used in investing activities was $1.1 million, $292,000, and $194,000 in fiscal years 2007, 2006, and 2005, respectively. Cash used in investing activities during fiscal 2007 was primarily due to $504,000 in investments in certificates of deposit, $255,000 in capital expenditures and $367,000 in capitalized software development. Cash used in investing activities during fiscal 2006 was primarily due to acquisition royalty earnout of $261,000 and capital expenditures of $55,000. Cash used in investing activities during fiscal 2005 was primarily due to capital expenditures of $153,000.

CASH PROVIDED BY FINANCING ACTIVITIES

Cash provided by financing activities was $1.3 million during fiscal 2007. Cash used in financing activities was $395,000 during fiscal 2006 and cash provided by financing activities was $2.9 million during fiscal 2005. Cash provided by financing activities in fiscal 2007 was attributable to $2.0 million in gross proceeds from the issuance of common stock in a private placement and additional proceeds from the exercise of stock options of $5,000, partially offset by stock issuance expenses of $263,000, repayment of $189,000 in long-term debt and capital leases, payment of $157,000 in preferred dividends and payment of financing costs of $101,000. Cash used in financing activities in fiscal 2006 was primarily a result of repayment of long-term debt and capital lease liabilities of $308,000 and $157,000, respectively, plus payment of dividends on preferred stock in the amount of $116,000. Cash provided by financing activities during fiscal 2005 was primarily due to proceeds from the issuance of long-term debt of $4.3 million, partially offset by the repayment of long-term debt and capital lease liabilities of $514,000 and $328,000, respectively, as well as payment of dividends on preferred stock.

OUTSTANDING INDEBTEDNESS AND PREFERRED STOCK

The Company currently has outstanding unsecured subordinated convertible notes due March 29, 2012, 115,000 issued and outstanding shares of Series A Convertible Preferred Stock and 59,500 issued and outstanding shares of Series B Convertible Preferred Stock, together with $2,962,000 in principal amount of Senior Notes. All of the foregoing securities were issued in connection with the Company's capital raising activities. A detailed discussion of the terms of these securities and the impact of issuance of and certain events surrounding these securities on our financial statements follows.

In March 2002, the Company issued $5,775,000 in principal amount of the Convertible Notes, the proceeds of which were used to extinguish an existing line of credit. 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 Convertible Notes are subordinated to any present or future senior indebtedness. In connection with the issuance of the Convertible Notes, 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. There was no financial impact on the Company's income statement as a result of the expiration of these warrants. 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 Convertible 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 Convertible Notes and is being amortized to interest expense over the ten year term of the Convertible Notes. Upon conversion, any remaining discount and beneficial conversion feature will be expensed in full at the time of conversion.

During fiscal 2006, holders with a principal balance of $525,000 agreed to convert their Convertible Notes and $8,000 of accrued interest into 1,97