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nherit;font-size:10pt;">Net income (loss)

$
120,919

1.9
%

$
(617,555
)

(9.7
)%

119.6
%

Net revenues

The increase in net revenues reflected above was primarily due to: (i) a $36,000 increase in net revenues from our engineering division; and (ii) a $467,000 increase in net revenues from our technology consulting and video production divisions. These increases were offset by:(i) a $299,000 decrease in net revenues from our accounting/finance division; (ii) a $128,000 decrease in net revenues from our financial services division; and (iii) a $66,000 decrease in net revenues from our SLE subsidiary. Under our long-standing policy, revenue is credited to the originating department regardless of the type of service that is performed.

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In the first six-months of 2015, net revenues from the accounting/finance division were $4.8 million, or 75% of net revenues, compared to $5.1 million, or 80% of net revenues, in the comparable 2014 period. Net revenues from subscription-based products and direct sales of course material on a non-subscription basis were approximately $3.3 million and $3.5 million in the same 2015 and 2014 six-month periods, respectively. Net revenues from other sources in our accounting/finance division that are not subscription based increased by $229,000 in the 2015 period as compared to the 2014 period. Live-training revenues decreased by $94,000 in the 2015 period from the 2014 period. Non-subscription-based revenues fluctuate from period to period. In the 2015 period, net revenues from online sales of accounting products decreased by approximately $120,000, as compared to the 2014 period, primarily as a result of decreased usage of courses sold on a non-subscription basis. Net revenues from our Loscalzo live training subsidiary decreased $80,000 in the 2015 period compared to the 2014 primarily due to decreased attendance at live seminars, as the various states see declining enrollments in these events as well as recent mergers of professional services firms and timing differences in the scheduling of events. Our EEI live training division's revenues decreased $218,000 in the 2015 period as compared to the 2014 period, primarily as a result of the elimination of under-performing seminars. Those decreases were offset in part by revenues earned from CPE administration, that is included in EEI's revenues. EEI's live training business is seasonal and its revenues are primarily earned in the second and fourth calendar quarters.

Our Financial Services division generated approximately $600,000 of net revenues for the six-month period ended June 30, 2015, compared to approximately $728,000 of net revenues for the same 2014 period. The decrease is due primarily from the recognition of income from a completed customization project for one client in the 2014 period and the loss of a client.

For the six-months ended June 30, 2015, SLE had net revenues of $119,000 compared to net revenues of $185,000 for the comparable 2014 period. For the 2015 period, SLE’s net revenues was generated by the Cognistar Legal division, as compared to $140,000 in the 2014 period. Net revenues of $45,000 generated by the Working Values Ethics and Compliance division in 2014 were derived primarily from custom consulting work. This division was terminated in December 2014.

Our Engineering division generated $226,000 of net revenues in the first six-months of 2015 compared to $190,000 in the same 2014 period. The increase is primarily a result of increased sales from the newly updated exam prep courses. Sales of our engineering products are not subscription based and primarily sold through professional organizations. Sales of our Watch IT information technology program are now included in the revenues of our Engineering division.

Net revenues generated by our other divisions, which consist of video production and duplication and consulting increased by $496,000 in the first six-months of 2015, as compared with the comparable 2014 period, primarily from the recognition of revenue from the sale of our technology products and related services.

Cost of revenues

Cost of revenues includes: (i) production costs – i.e., the salaries, benefits and other costs related to personnel, whether our employees or independent contractors, who are used directly in production, including producing our educational programs and/or upgrading our technology; (ii) royalties paid to third parties; (iii) the cost of materials, such as DVD’s and packaging supplies; (iv) costs related to live training; and (v) shipping and other costs. There are many different types of expenses that are characterized as production costs and many of them vary from period to period depending on many factors. Generally, subscription based products have higher profit margins than non-subscription based products and online sales have higher profit margins than sales involving physical delivery of material.

Our gross profit margins for the six-months ended June 30, 2015 increased to 59.5% from 53.6% in the same 2014 period. The increase in gross profit is attributable to a number of factors including, reduced expenditures on outsourced technology, the elimination of poorly performing live EEI and Loscalzo seminars, conferences and clients. Although, we have reduced our outsourced technology costs, we do devote a significant amount of internal and external resources to develop new features in our products and to update and maintain existing products and technology. These costs are charged to expense as they are incurred.

Cost of revenues decreased by approximately $374,000 in the six-month period ended June 30, 2015 compared to the same 2014 period.

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Outside labor and direct production costs. Outside labor includes the cost of hiring actors and production personnel such as directors, producers and cameramen and the outsourcing of non-video technology. The cost of such outside labor, which are primarily technology and video production personnel, decreased $145,000. Direct production costs, which are costs related to producing videos, courses, custom projects or live instruction and includes such costs as renting equipment and locations and the use of live instructors for either teaching or developing the courses, decreased $118,000. The decrease is primarily attributable to the cost of reduced expenses related to live training.

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The variation in direct production costs are related to the type of production and other projects and do not reflect any trends in our business. As our business grows we may be required to hire additional production personnel, increasing our cost of revenues. Our course libraries require regular updating.

- Royalties. Royalty expense was constant for the comparable periods. Royalty expense varies from period to period based on sales and usage of our various products. Royalty expense is primarily driven by our accounting course catalog and our engineering product sales. Generally, royalties are paid twice per year and are calculated based on a number of factors, not all of which are available to us on a monthly, or even a quarterly basis. Accordingly, a substantial portion of our royalty expense for the period is estimated.
- Salaries. Overall, payroll and related costs attributable to production personnel decreased by approximately $9,000 in the 2015 period as compared to the 2014 period.
- Other production related costs. These are other costs directly related to the production of our products or the costs related to live training such as purchases of materials, cost of venues, travel, shipping, and other. These costs decreased in the 2015 period by approximately $98,000 to approximately $174,000 in the 2015 period from approximately $272,000 in the 2014 period. This is primarily due to the reduction in live training events.

Selling, general and administrative expenses

Selling, general and administrative expenses include corporate overhead, such as compensation and benefits for administrative, sales and marketing and finance personnel, rent, insurance, professional fees, travel and entertainment and office expenses. Selling, general and administrative expenses for the six-months ended June 30, 2015 decreased by approximately $501,000, or 13.9%, compared to the same 2014 period. This decrease is primarily attributable to reduced payrolls and related costs and a decrease in marketing expenses related to EEI live training events.

Compensation expense for the six-months ended June 30, 2015 decreased by $251,000 compared to the same 2014 period. The decrease in compensation expense is primarily attributable to savings from a reduction in headcount. In addition, included in compensation expense is stock based compensation expense of approximately $20,000, as compared to approximately $27,000 in the 2014 period.

Our other selling, general and administrative costs, exclusive of compensation costs, decreased by $250,000, primarily as a result of a reduction in marketing and promotional expenses related to EEI. We make every effort to control our costs, however, some selling, general and administrative expenses, such as costs related to technology, insurance, travel and other costs are harder to control. In addition, while we have reduced our outsourced customer service department costs, we anticipate increasing our spending on various marketing programs and the hiring of additional sales personnel.

Depreciation and amortization

Depreciation and amortization expense increased by approximately $16,000 for the six-months ended June 30, 2015 as older assets become fully depreciated and some of our intangible assets become fully amortized. Although, we have now fully amortized many of the assets acquired in prior acquisitions, we are continuously purchasing new computer equipment and have begun to amortize the costs related to the development of our AMS and other new technology as well as the development of new course content. We will begin amortizing the cost of other internally developed software as they are placed into service. Due to this we expect our depreciation and amortization expense on our fixed and intangible assets to decrease slightly in future periods. We capitalize internal costs for the development of new courses and other technology, as incurred. We continually replace and add to our computer and other equipment as it ages and as additional equipment is needed to accommodate growth.

Operating income (loss)

For the six-months ended June 30, 2015, the operating income was approximately $154,000 compared to an operating loss of approximately $715,000 in the corresponding 2014 period. The increase in operating income is primarily a result of relatively flat revenues, offset by a decrease in cost of revenues and selling, general and administrative costs.

Other income/expense, net

Other income and expense items consist of interest earned on deposits and the net loss from our iReflect joint venture. We have no debt other than trade payables and accrued liabilities. For the six-months ended June 30, 2015 we had net other income of approximately $8,000 as compared to a net other income of approximately $9,000 in the comparable

2014 period.

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Income taxes
For the six-months ended June 30, 2015, we recorded a provision for income taxes of $8,000. primarily for state and local taxes as compared to a net income tax benefit of $132,000 in the same 2014 period.
Income (loss) from continuing operations
For the six-months ended June 30, 2015 and 2014, we recorded net income from continuing operations of approximately $162,000 as compared to a net loss of approximately $706,000, respectively, or $0.03 and ($.12) per share, basic and diluted, respectively.
(Loss) from discontinued operations, net of taxes
For the six-month period ended June 30, 2015, we recorded a net loss from discontinued operations of approximately $33,000 and compared to a net loss in the comparable 2014 period of approximately $44,000 or ($0.01) per share basic and diluted.

Net income (loss)

We recorded net income for the six-months ended June 30, 2015 of approximately $121,000, or $0.03 per share basic and diluted, as compared to a net loss of approximately $618,000 or ($0.13) per share basic and diluted in the comparable 2014 period.

Liquidity and Capital Resources
At June 30, 2015 we had no long-term debt.
Our working capital as of June 30, 2015 was approximately $1.4 million compared to $1.3 million at December 31, 2014. Our current ratio at June 30, 2015 and December 31, 2014 was 1.30 to 1 and 1.21 to 1, respectively. The current ratio is derived by dividing current assets by current liabilities and is a measure used by lending sources to assess our ability to repay short-term liabilities. The largest component of our current liabilities is deferred revenue, which was $3.8 million at June 30, 2015 and $4.8 million at December 31, 2014, respectively. The decline in deferred revenue is not indicative of any trends as there are often timing differences in the way we bill our clients. Also, a substantial portion of our subscription business is on a calendar year basis and as such the revenues get absorbed into income during the year, simultaneously reducing the deferred revenue. Additionally, at year-end we had a substantial amount of deferred revenue from our technology and consulting products, some of which was absorbed into income in the first six-months of 2015.
At June 30, 2015, we had cash and cash equivalents of approximately $4.1 million. For the six-months ended June 30, 2015, we had a net decrease in cash and cash equivalents of approximately $736,000 that includes approximately $198,000 of cash used in operating activities, $369,000 of cash used in investing activities and approximately $168,000 of cash used in financing activities. The primary components of our operating cash flows are net income or loss adjusted for non-cash expenses, such as depreciation and amortization stock-based compensation and deferred and current income taxes, and the changes in our operating assets and liabilities, such as accounts receivable, accounts payable and deferred revenues. Our cash balances fluctuate periodically due to timing differences such as the dates of certain large live training events.
In June 2014, we issued a press release announcing our "Back to Basics" program that entailed a reduction in spending and a re-purposing of resources. This resulted in a reduction in personnel, both outsourced and internal, a substantial portion of which was previously capitalized. We used some of these savings to increase our sales and marketing efforts. We will also continue to review our various product lines and analyze products or clients to insure that we are getting an adequate return on our investment. This has resulted in a reduction in cash expenditures for both internal and outsourced labor and other operating costs. These expected savings have been offset to the extent of a decrease in revenues from the loss of clients or products that have provided an inadequate rate of return.
We expect that our "Back to Basics" program will provide continual cost savings in the remaining 2015 quarters. We had anticipated that our annualized savings from net personnel and other cost reductions would have a positive effect on our net operating results. Actual cost of revenues and selling, general and administrative expenses were

approximately $875,000 lower in the first six-months of 2015 as compared to the first six-months of 2014. However, some of these savings will and could be offset by reductions in revenues that were not part of our plan.

Any of these anticipated savings could be offset by reductions in revenues and related costs. We are hopeful that our increased marketing efforts will offset any declines in revenue. We must caution that these estimates can be greatly affected by many factors as our "Back to Basics" plan is implemented.
At June 30, 2015, we had, inclusive of discontinued operations, approximately $1,576,000 in receivables and $776,000 in payables and accrued expenses, as compared to $2.1 million of receivables and $1.2 million in payables and accrued expenses at December 31, 2014, exclusive of dividends payable.
Net cash used in operating activities was approximately $198,000 for the six-months ended June 30, 2015 after adjusting the income of approximately $121,000 by non-cash charges of approximately $551,000, as compared to approximately $137,000 of cash used in the comparable six-month period of 2014. The major other components of operating activity cash are from changes in the receipts from the collection of accounts receivables of approximately $506,000, offset by reductions in accounts payable of approximately $446,000 and deferred revenue of approximately $975,000. In addition, approximately $42,000 of prepaid expenses were charged to operations in the period.
For the six-months ended June 30, 2015, net cash used in investing activities was approximately $369,000, which included capital expenditures consisting of computer equipment and software purchases of approximately $128,000, $81,000 for course development and $160,000 for capitalized software, as compared to approximately $635,000 of cash used in the comparable six-month period of 2014. We anticipate that our capital expenditures for the remainder of 2015 will be substantially lower as compared to 2014, as we have completed the expenditures on most of our new technology. However, we do continually upgrade our technology hardware and, as such, we anticipate additional capital expenditures relating to equipment purchases over the next 12 months in the normal course of business.
Net cash used in financing activities of $168,000 for the six-months ended June 30, 2015 reflects dividends paid of approximately $138,000 and stock repurchases of approximately $29,000, as compared to approximately $141,000 of net cash used in the comparable six-month period of 2014. On August 6, 2015, our board of directors declared a dividend of $.015 per common share payable on October 7, 2015 to shareholders of record as of September 18, 2015.
We believe that our current cash balances will be sufficient to meet our working capital and capital expenditure requirements for the next 12 months.
In the future, we may issue debt or equity securities to satisfy our cash needs. Any debt incurred may be secured or unsecured, bear interest at a fixed or variable rate and may contain other terms and conditions that we deem are reasonable under the circumstances existing at the time. Any sales of equity securities may be at or below current market prices. There is no assurance you that we will be successful in generating sufficient capital to adequately fund our needs.

Item 3. Quantitative and Qualitative Risk Disclosures About Market Risk
As a smaller reporting company we are not required to provide the information required by this Item.

Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures. Management, with the participation of our principal executive officer and principal financial officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report (the “Evaluation Date”). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.
Changes in Internal Control over Financial Reporting. There were no changes in our internal controls over financial reporting that occurred during the quarter ended June 30, 2015 covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

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We are not a party to any material legal proceeding other than those incurred in the normal course of business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Recent Sales of Unregistered Securities
None.
Company Purchases of its Equity Securities
During the six month period ended June 30, 2015, we repurchased 17,084 shares of our Common Stock under our stock buy back program at a total cost of $29,415. As set forth below, $350,000 was available under our stock buy back program as of June 30, 2015. On May 5, 2015, the Board authorized and approved an extension of the stock buy-back program with an allocation of up to $350,000 for the repurchase of shares of Common Stock until the November 2015 Board meeting.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (April 1-30, 2015)	8,872	$1.82	8,872	$216,179
Month # 2 (May 1-31, 2015)	1,400	1.92	1,400	347,684
Month #3 (June 1-30, 2015)	—	—	—	347,684
Total	10,272	$1.83	10,272	$347,684

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information
None.

Item 6. Exhibits
Exhibits:

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document.
101.CAL	XBRL Taxonomy Extension Schema Document.
101.SCH	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

*Furnished herewith in accordance with Item 601(32)(ii) of Regulation S-K.

SIGNATURES

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

		SmartPros Ltd.
		(Registrant)
Date:	August 6, 2015	/s/ Allen S. Greene
		Chief Executive Officer (Principal Executive Officer)
Date:	August 6, 2015	/s/ Stanley P. Wirtheim
		Chief Financial Officer (Principal Financial Officer)