

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

ILINC COMMUNICATIONS INC
Form 8-K/A
August 13, 2004

=====

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

FORM 8-K/A

AMENDMENT NO. 1 TO CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 14, 2004

COMMISSION FILE NUMBER 1-13725

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

DELAWARE
(State or other jurisdiction
of incorporation or organization)

76-0545043
(I.R.S. Employer
Identification No.)

2999 NORTH 44TH STREET, SUITE 650, PHOENIX, ARIZONA
(address of principal executive offices)

85018
(Zip code)

(602) 952-1200
(Registrant's telephone number, including area code)

=====

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Pro Forma Financial Information (unaudited)

| | |
|--|---|
| iLINC COMMUNICATIONS, INC. AND GLYPHICS COMMUNICATIONS, INC. PRO FORMA UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS | |
| Introduction..... | 4 |
| Pro Forma Unaudited Condensed Combined Balance Sheet as of March 31, 2004..... | 5 |
| Pro Forma Unaudited Condensed Combined Statement of Operations | |

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

for the year ended March 31, 2004.....6
Notes to Pro Forma Unaudited Condensed Combined Financial
Statements.....7

(b) Financial Statements of Business Acquired

GLYPHICS COMMUNICATIONS, INC. FINANCIAL STATEMENTS
Report of Independent Registered Public Accounting Firm.....9
Balance Sheets at December 31, 2003 and 2002.....10
Statements of Operations for the years ended December 31, 2003
and 2002.....11
Statements of Shareholders' Equity (Deficit) for the years
ended December 31, 2003 and 2002.....12
Statements of Cash Flows for the years ended December 31, 2003
and 2002.....13
Notes to Financial Statements.....14
EXHIBIT 23 Consent of Hansen, Barnett & Maxwell.....20

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934,
the registrant has duly caused this report to be signed on its behalf by the
undersigned hereunto duly authorized.

iLinc Communications, Inc.

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

James M. Powers, Jr.,
Chairman of the Board, President and
Chief Executive Officer

Date: August 13, 2004

ILINC COMMUNICATIONS, INC.
AND GLYPHICS COMMUNICATIONS, INC.
PRO FORMA UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS

INTRODUCTION

The following pro forma combined financial statements reflect the
acquisition of certain assets of Glyphics Communications, Inc. ("Glyphics") by
iLinc Communications, Inc. ("iLinc"). The acquisition had a stated effective
date of June 1, 2004 and was fully consummated on June 14, 2004.

The pro forma unaudited condensed combined balance sheet is derived
from the historical consolidated balance sheet of iLinc as of March 31, 2004 and
the historical balance sheet of Glyphics as of December 31, 2003. The pro forma
adjustments to the pro forma unaudited condensed combined balance sheet have

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

been presented as if the acquisition had been consummated on March 31, 2004.

The pro forma unaudited condensed combined statement of operations for the year ended March 31, 2004 is derived from the historical consolidated statement of operations of iLinc for the fiscal year ended March 31, 2004 and the historical statement of operations of Glyphics for the calendar year ended December 31, 2003. The pro forma adjustments to the pro forma unaudited condensed combined statement of operations have been prepared as if the acquisition of Glyphics had been consummated on April 1, 2003.

The pro forma unaudited condensed combined financial statements are not necessarily indicative of the results of the future operations of iLinc. The pro forma unaudited condensed combined statements of operations do not reflect any of the anticipated cost savings resulting from integration of the operations of iLinc and Glyphics nor do they include any anticipated costs that may be incurred to integrate the operations of the two companies. The pro forma adjustments described in the accompanying notes are based on estimates derived from information currently available.

The pro forma unaudited condensed combined financial statements should be read in conjunction with the notes thereto and the historical financial statements of Glyphics included in Item 7(b) of this Form 8-K/A. In addition, reference should be made to the historical consolidated financial statements of iLinc included in Form 10-K for the year ended March 31, 2004 as filed with the Securities and Exchange Commission.

ILINC COMMUNICATIONS, INC. AND GLYPHICS COMMUNICATIONS, INC. PRO FORMA UNAUDITED CONDENSED COMBINED BALANCE SHEET AS OF MARCH 31, 2004 (IN THOUSANDS)

| | iLinc | Glyphics | Pro For Adjustme |
|---|-----------|----------|---------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 292 | \$ -- | \$ (|
| Accounts receivable, net | 1,097 | 632 | |
| Prepaid expenses and other current assets | 108 | 108 | |
| Notes receivable | 25 | -- | |
| Assets of discontinued operations | -- | 187 | |
| | ----- | ----- | ----- |
| Total current assets | 1,522 | 927 | (|
| Property and equipment, net | 310 | 1,356 | |
| Goodwill | 9,190 | -- | |
| Intangible assets, net | 1,061 | -- | 1, |
| Notes receivable | 25 | -- | |
| Other assets | 51 | 54 | |
| Assets of discontinued operations | 301 | -- | |
| | ----- | ----- | ----- |
| Total assets | \$ 12,460 | \$ 2,337 | \$ 2, |
| | ===== | ===== | ===== |

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current liabilities:

| | | | | | | |
|--|----|-------|----|-------|----|--|
| Bank overdraft | \$ | -- | \$ | 66 | \$ | |
| Current portion of long term debt | | 961 | | 747 | | |
| Accounts payable and accrued liabilities | | 2,301 | | 1,277 | | |
| Deferred revenue | | 1,084 | | -- | | |
| Current portion of capital lease liabilities | | 289 | | 188 | | |
| Liabilities of discontinued operations | | -- | | 81 | | |

Total current liabilities 4,635 2,359

| | | | | | | |
|---|--|-------|--|-----|--|--|
| Long term debt, less current maturities and net of discount | | 4,444 | | -- | | |
| Capital lease liabilities, less current maturities | | 15 | | 269 | | |

Total liabilities 9,094 2,628

Commitments and contingencies -- --

Shareholders' equity (deficit):

| | | | | | | |
|--|--|----------|--|-------|--|----|
| Preferred stock, 150,000 shares issued and outstanding | | -- | | -- | | |
| Common stock, 19,257,304 (historical) and 22,076,659 (pro forma) shares issued and outstanding | | 19 | | 10 | | |
| Additional paid-in capital | | 36,395 | | 867 | | 1, |
| Accumulated deficit | | (31,640) | | (992) | | |
| Less: Treasury shares, 1,432,412 at cost | | (1,408) | | (176) | | |

Total shareholders' equity (deficit) 3,366 (291) 3,

Total liabilities and shareholders' equity (deficit) \$ 12,460 \$ 2,337 \$ 2,

SEE ACCOMPANYING NOTES TO THE UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENT

5

ILINC COMMUNICATIONS, INC. AND GLYPHICS COMMUNICATIONS, INC.
 PRO FORMA UNAUDITED CONDENSED COMBINED STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED MARCH 31, 2004
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

| | ILINC | GLYPHICS | PRO FORMA ADJUSTMENTS | |
|---------------------------------|----------|----------|-----------------------|-----|
| Revenues | | | | |
| Licenses | \$ 2,241 | \$ -- | \$ -- | \$ |
| Service and maintenance | 3,665 | -- | -- | |
| Conferencing and Seminars | -- | 3,726 | (21) | (B) |
| Total revenue | 5,906 | 3,726 | (21) | |

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

| | | | | |
|--|-------------------|-----------------|-----------------|-----|
| Operating expenses | | | | |
| Research and development | 2,754 | -- | (21) | (B) |
| Sales and marketing | 1,840 | 1,225 | -- | |
| General and administrative | 2,237 | 4,015 | -- | |
| Depreciation and amortization | 462 | 563 | 419 | (C) |
| | <u>7,293</u> | <u>5,803</u> | <u>398</u> | |
| Loss from operations | <u>(1,387)</u> | <u>(2,077)</u> | <u>(419)</u> | |
| Interest expense | (1,233) | (70) | -- | |
| Interest income and other | 6 | 4 | -- | |
| Net gain on settlement of debt and other obligations | 349 | -- | -- | |
| Loss on asset disposal | -- | (73) | -- | |
| Loss on foreign currency translation | (28) | -- | -- | |
| | <u>(906)</u> | <u>(139)</u> | <u>--</u> | |
| Loss from continuing operations before income taxes | <u>(2,293)</u> | <u>(2,216)</u> | <u>(419)</u> | |
| Income tax expense | -- | -- | -- | |
| Loss from continuing operations | <u>(2,293)</u> | <u>(2,216)</u> | <u>(419)</u> | |
| Income from discontinued operations | 275 | 1,600 | -- | |
| Net loss | <u>(2,018)</u> | <u>(616)</u> | <u>(419)</u> | |
| Preferred stock dividends | (75) | -- | -- | |
| Imputed preferred stock dividends | (247) | -- | -- | |
| Net loss available to common shareholders . | <u>\$ (2,340)</u> | <u>\$ (616)</u> | <u>\$ (419)</u> | |
| Earnings (loss) per common share, basic and diluted | | | | |
| From continuing operations | \$ (0.16) | | | |
| From discontinued operations | 0.02 | | | |
| Net earnings (loss) per common share ... | <u>\$ (0.14)</u> | | | |
| Number of shares used in calculation of earnings (loss) per share basic and diluted: | <u>16,743</u> | | | (D) |

SEE ACCOMPANYING NOTES TO THE UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

On June 3, 2004, iLinc executed an asset purchase agreement to acquire substantially all of the assets of and assume certain liabilities of Glyphics Communications, Inc., a Utah based private company. The acquisition had a stated effective date of June 1, 2004 and was fully consummated on June 14, 2004. The purchase price, which was originally estimated to total \$5.568 million, is based on a multiple of the Glyphics' 2003 annual audio conferencing business revenues (as defined in the asset purchase agreement). The purchase price was to be paid with the assumption of specific liabilities, with the balance paid using iLinc's common stock at the fixed price of \$1.05 per share. ILinc's plans to continue to pursue the business formerly conducted by Glyphics on an integrated basis with its existing Web conferencing products.

In exchange for the assets received iLinc assumed \$2.1 million in debt and issued 2.8 million shares of our common stock. An additional 704,839 shares of the Company's common stock is currently being held in escrow and is subject to the claims of the Company for: (1) the amount, if any, that the audited audio conferencing business revenues (as defined in the asset purchase agreement) earned by the Company during the twelve months after the closing date are less than the audited audio conferencing business revenues (as defined in the asset purchase agreement) recorded by Glyphics during the twelve months ending with the closing date of the acquisition, (2) the representations and warranties made by Glyphics' and its shareholders in the asset purchase agreement, and (3) the amount if any that the liabilities accrued or paid by the Company are in excess of those specifically scheduled and assumed as part of the asset purchase agreement. Those contingent escrow shares shall be returned to the Company by the escrow agent in the event that those revenue performance targets and contingent liability requirements are not achieved.

The purchase price is calculated as if the purchase was consummated on March 31, 2004, as follows (in thousands):

| | | |
|---|----|-------|
| Issuance of iLinc common stock valued at \$0.98 per share.. | \$ | 2,763 |
| Acquisition costs..... | | 100 |
| | | ----- |
| Net purchase price, including acquisition costs..... | | 2,863 |
| Assumed liabilities..... | | 2,443 |
| | | ----- |
| Total purchase price..... | \$ | 5,306 |
| | | ===== |

The following is a summary of the significant assumptions and adjustments used in preparing the pro forma unaudited condensed combined balance sheet as of March 31, 2004 and the pro forma unaudited condensed combined statement of operations for the year ended March 31, 2004.

- (A) The total purchase price has initially been allocated to assets acquired and liabilities assumed based upon their estimated fair values in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." The excess purchase price over the estimated fair value of the tangible and identifiable intangible assets acquired and liabilities assumed has been assigned to goodwill.

The purchase price of Glyphics has initially been allocated as follows:

PURCHASE

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

| | HISTORICAL AMOUNT | PRICE ALLOCATION | PRO FO ADJUST |
|--------------------------------------|----------------------|---------------------|------------------|
| | | (IN THOUSANDS) | |
| Current assets..... | \$ 927 | \$ 827 | \$ |
| Property and equipment..... | 1,356 | 1,609 | |
| Goodwill | -- | 789 | |
| Other assets | 54 | -- | |
| Identifiable intangible assets | -- | 1,981 | |
| Current liabilities..... | (2,359) | (2,174) | |
| Capital leases..... | (269) | (269) | |
| Common stock..... | (10) | (3) | |
| Capital in excess of par value..... | (867) | (2,760) | |
| Accumulated deficit..... | 992 | -- | |
| Treasury Shares..... | 176 | -- | |
| | \$ -- | \$ -- | \$ |

- (B) Reflects the elimination of sales between iLinc and Glyphics prior to the acquisition.
- (C) Reflects additional amortization and depreciation of the identifiable tangible and intangible assets recorded as part of the Glyphics acquisition.
- (D) Pro forma weighted average shares of common stock outstanding is summarized below:

| | YEAR ENDED MARCH 31, 2004 |
|---|------------------------------|
| iLinc historical weighted average common shares: | |
| Basic and diluted..... | 16,743 |
| iLinc shares issued for the acquisition of Glyphics..... | 2,820 |
| Pro forma weighted average common shares: | |
| Basic and diluted..... | 19,563 |

HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS
5 Triad Center, Suite 750
Salt Lake City, UT 84180-1128
Phone: (801) 532-2200
Fax: (801) 532-7944
www.hbmcpas.com

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Glyphics Communications, Inc.

We have audited the accompanying balance sheets of Glyphics Communications, Inc as of December 31, 2003 and 2002, and the related statements of operations, shareholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Glyphics Communications, Inc. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/S/ HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
July 22, 2004

9

GLYPHICS COMMUNICATIONS INC.
BALANCE SHEETS

| | DECEMBER 31, | |
|----------------|--------------|-----------|
| | 2003 | 2002 |
| ----- | | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ -- | \$ 91,828 |

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

| | | |
|---|--------------|--------------|
| Accounts receivable, net of allowance for doubtful accounts of \$29,288 and \$33,331, respectively | 631,783 | 375,312 |
| Prepaid expenses | 107,953 | 59,519 |
| Assets of discontinued operations | 186,888 | 596,824 |
| ----- | | |
| TOTAL CURRENT ASSETS | 926,624 | 1,123,483 |
| ----- | | |
| OTHER ASSETS | | |
| Property and equipment, less accumulated depreciation of \$2,343,292 and \$1,826,628, respectively | 1,356,338 | 1,195,730 |
| Deposits | 43,186 | 34,346 |
| Other assets | 10,466 | 11,366 |
| ----- | | |
| TOTAL OTHER ASSETS | 1,409,990 | 1,241,442 |
| ----- | | |
| TOTAL ASSETS | \$ 2,336,614 | \$ 2,364,925 |
| ===== | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Bank overdraft | \$ 65,931 | \$ -- |
| Accounts payable | 1,127,459 | 911,870 |
| Deposits received | 39,641 | 23,506 |
| Accrued expenses | 109,672 | 248,786 |
| Notes payable- current portion | 746,721 | 494,608 |
| Obligations under capital leases- current portion | 188,067 | 36,728 |
| Liabilities of discontinued operations | 81,313 | 285,218 |
| ----- | | |
| TOTAL CURRENT LIABILITIES | 2,358,804 | 2,000,716 |
| ----- | | |
| LONG-TERM LIABILITIES | | |
| Notes payable- long-term portion | -- | 34,006 |
| Obligations under capital lease- long-term portion | 268,970 | 5,515 |
| ----- | | |
| TOTAL LONG-TERM LIABILITIES | 268,970 | 39,521 |
| ----- | | |
| TOTAL LIABILITIES | 2,627,774 | 2,040,237 |
| ----- | | |
| SHAREHOLDERS' EQUITY (DEFICIT) | | |
| Common shares - \$1 par value; 10,000 shares authorized, issued and outstanding | 10,000 | 10,000 |
| Additional paid in captial | 867,189 | 867,189 |
| Treasury stock - 3,333 shares at cost | (175,800) | (175,800) |
| Accumulated deficit | (992,549) | (376,701) |
| ----- | | |
| TOTAL SHAREHOLDERS' EQUITY (DEFICIT) | (291,160) | 324,688 |
| ----- | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) | \$ 2,336,614 | \$ 2,364,925 |
| ===== | | |

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

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | FOR THE YEARS ENDED DECEMBER 31, | |
|---|-------------------------------------|--------------|
| | 2003 | 2002 |
| Revenue | \$ 3,726,181 | \$ 2,618,182 |
| COST OF REVENUE | 1,999,453 | 1,713,613 |
| GROSS PROFIT | 1,726,728 | 904,569 |
| OPERATING EXPENSES | | |
| Commissions | 666,572 | 784,473 |
| General administrative and other selling expense | 3,137,523 | 2,727,352 |
| TOTAL OPERATING EXPENSES | 3,804,095 | 3,511,825 |
| OPERATING LOSS | (2,077,367) | (2,607,256) |
| OTHER INCOME (EXPENSE) | | |
| Loss on asset disposal | (72,368) | -- |
| Interest expense | (69,965) | (43,964) |
| Interest income | 3,733 | 4,082 |
| NET OTHER EXPENSE | (138,600) | (39,882) |
| LOSS FROM CONTINUING OPERATIONS | (2,215,967) | (2,647,138) |
| INCOME FROM DISCONTINUED OPERATIONS | 1,600,119 | 2,517,367 |
| NET LOSS | \$ (615,848) | \$ (129,771) |
| BASIC AND DILUTED LOSS PER COMMON SHARE | | |
| Continuing operations | (332.38) | (397.05) |
| Discontinued operations | 240.01 | 377.59 |
| NET LOSS PER COMMON SHARE | (92.37) | (19.46) |
| NUMBER OF SHARES USED IN CALCULATION OF LOSS PER SHARE BASIC AND DILUTED | 6,667 | 6,667 |

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

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

| | COMMON SHARES | | ADDITIONAL PAID-IN CAPITAL | TREASURY SHARES | |
|-----------------------------|---------------|-----------|-------------------------------|-----------------|-------------|
| | SHARES | AMOUNT | | SHARES | AMOUNT |
| Balance - December 31, 2001 | 10,000 | \$ 10,000 | \$ 867,189 | (1,000) | \$(50,000) |
| Repurchase of shares | - | - | - | (2,333) | (125,800) |
| Net loss | - | - | - | - | - |
| BALANCE - DECEMBER 31, 2002 | 10,000 | 10,000 | 867,189 | (3,333) | (175,800) |
| Net loss | - | - | - | - | - |
| BALANCE - DECEMBER 31, 2003 | 10,000 | \$ 10,000 | \$ 867,189 | (3,333) | \$(175,800) |

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

12

GLYPHICS COMMUNICATIONS, INC
STATEMENTS OF CASH FLOWS

| | FOR THE YEARS ENDED DECEMBER 31, | |
|---|-------------------------------------|---------------|
| | 2003 | 2002 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss from continuing operations | \$(2,215,967) | \$(2,647,138) |
| Adjustments to reconcile net loss from continuing operations to net cash from operating activities: | | |
| Depreciation | 559,329 | 501,238 |
| Change in allowance for doubtful accounts | (4,043) | 12,564 |
| Loss from asset disposal | 72,368 | -- |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (252,428) | (89,863) |
| Prepaid expenses | (48,434) | (15,569) |
| Accounts payable | 215,589 | (124,454) |
| Deposits received | 16,135 | (9,827) |
| Accrued liabilities | (139,114) | 43,631 |
| NET CASH FROM OPERATING ACTIVITIES | (1,796,565) | (2,329,418) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (178,713) | (330,499) |
| Change in other assets and deposits | (7,940) | 2,300 |
| NET CASH FROM INVESTING ACTIVITIES | (186,653) | (328,199) |

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

| | | |
|---|-------------|-------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in bank overdraft | 65,931 | -- |
| Proceeds from notes payable | 623,748 | 20,000 |
| Payments on notes payable and capital leases | (604,439) | (110,390) |
| NET CASH FROM FINANCING ACTIVITIES | 85,240 | (90,390) |
| CASH FLOWS FROM CONTINUING OPERATIONS | | |
| CASH FLOWS FROM DISCONTINUED OPERATIONS | (1,897,978) | (2,748,007) |
| NET CHANGE IN CASH | 91,828 | 263,005 |
| CASH AT BEGINNING OF YEAR | 91,828 | 263,005 |
| CASH AT END OF YEAR | \$ -- | \$ 91,828 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 69,965 | \$ 43,964 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Equipment acquired under capital lease | \$ 613,592 | \$ -- |
| Acquisition of treasury stock with a note payable | \$ -- | \$ 125,800 |

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

13

GLYPHICS COMMUNICATIONS, INC
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Glyphics Communications, Inc., (the "Company"), was incorporated under the laws of the State of Utah in August 1998. The Company provides business communication services for everyday business meetings and events to individuals and companies throughout the United States. The Company's services include automated audio conferencing and tele conferencing with simple web controls and presentation tools.

NOTE 2 - DISCONTINUED OPERATIONS

In July 2003, the Company sold all of its long distance customer accounts to an unrelated entity. Under the terms of sale the buyer agreed to pay the Company amount equal to 2.25 times service revenue for certain bill cycles which originally totaled \$543,558 and subsequently renegotiated to \$437,698. Through December 31, 2003 the Company had received proceeds of \$250,810 and had a remaining receivable of \$186,888. In accordance with SFAS 144 "Accounting for Impairment on Disposal of Long-lived Assets", the Company has restated its historical results to reflect its long distance business segment as a discontinued operation.

A summary of the results from discontinued operations for the years ended December 31, 2003 and 2002 are as follows:

| YEAR ENDED DECEMBER 31, | |
|-------------------------|------|
| 2003 | 2002 |

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

| | | |
|--|---------------------|---------------------|
| Net revenue | \$ 1,541,913 | \$ 3,446,578 |
| Operating expenses | (379,492) | (929,211) |
| Income from operations | 1,162,421 | 2,517,367 |
| Gain on sale of long distance | 437,698 | -- |
| Income tax expense | -- | -- |
| NET INCOME FROM DISCONTINUED OPERATIONS | \$ 1,600,119 | \$ 2,517,367 |

A summary of the assets and liabilities of the Company's discontinued operations are as follows:

| | DECEMBER 31, | |
|---|--------------|------------|
| | 2003 | 2002 |
| ASSETS | | |
| Receivable from buyers of long distance segment | \$ 186,888 | \$ -- |
| Accounts receivable, net of allowance for doubtful accounts of \$0 and \$53,002, respectively | -- | 596,824 |
| | \$ 186,888 | \$ 596,824 |
| LIABILITIES | | |
| Accrued expenses | \$ 81,313 | \$ 285,218 |

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are used in these financial statements to determine the allowance for doubtful accounts, useful lives of depreciable assets and the valuation allowance for deferred tax assets.

14

BASIS OF PRESENTATION

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. As shown in the financial statements, during the years ended December 31, 2003 and 2002, the Company incurred losses from continuing operations of \$2,215,967 and \$2,647,138, respectively. During the years ended December 31, 2003 and 2002, the Company's continuing operations used \$1,796,565 and \$2,329,418 of cash, respectively. The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitable operations. Management has addressed this concern by selling substantially all the assets of the Company to iLinc Communications, Inc. (iLinc) for a yet-to-be determined purchase price. Also, as part of the purchase iLinc will assume \$2.114 million in specific liabilities.

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

REVENUE RECOGNITION

AUDIO CONFERENCING - Revenue for the Company's Audio Conferencing service is generally based upon the actual time that each participant is on the phone. In addition, the Company charges customers a fee for additional services such as call taping, digital replay, participant lists and transcription services. The Company recognizes usage revenue and related fees from its Operator Assisted Conferencing service in the period the call is completed.

TELE SEMINAR - The Company records revenue from tele seminars on the net basis in accordance with EITF 99-19 REPORTING REVENUE GROSS AS A PRINCIPAL VERSUS NET AS AN AGENT. As a service to the tele seminar sponsor, the Company collects all fees from tele seminar customers. Upon the conclusion of the tele seminar, the Company retains an agreed upon fee plus phone usage charges and remits the remaining fees collected to the tele seminar sponsor. Under the net method of recognizing revenue, only the agreed upon tele seminar fee and phone usage charges are recorded as revenue upon completion of the tele seminar. Any fees received in advance of the seminar are classified as deposits received in the Company's accompanying financial statements.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - The Company records an allowance for doubtful accounts to provide for losses on accounts receivable due to customer credit risk. Increases to the allowance for doubtful accounts are charged to other operating expense as bad debt expense. Losses on accounts receivable due to financial distress or failure of the customer are charged to the allowance for doubtful accounts. The allowance estimate is based on an analysis of the historical rate of credit losses. The accuracy of the estimate is dependent on the future rate of credit losses being consistent with the historical rate. If the rate of future credit losses is greater than the historical rate, then the allowance for doubtful accounts may not be sufficient to provide for actual credit losses. The allowance for doubtful accounts for the Company from continuing operations was \$29,288 and \$33,331, respectively, as of December 31, 2003 and 2002.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt investments with remaining maturities of three months or less at the date of acquisition to be cash equivalents.

The Company maintains cash balances in various accounts at one financial institution. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. The Company's accounts at these institutions may, at times, exceed the federally insured limit.

The Company also, at times, issues disbursements to vendors in excess of cash deposited in bank creating a bank overdraft. Bank overdrafts are classified as a current liability in accompanying financial statement.

EQUIPMENT AND DEPRECIATION

Equipment is stated at cost. Depreciation is calculated on an accelerated method over the estimated useful lives of three to seven years. Leasehold improvements are amortized over the shorter of related lease terms or their estimated useful lives. Depreciation expense includes capital lease amortization charges. Upon retirement or sale, the cost of the assets disposed and the related accumulated depreciation is removed from the accounts and any resulting gain or loss is included in operations in the period realized.

The Company reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

be recoverable. The carrying amount of a long-lived asset is considered impaired when anticipated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. No such impairment charges were recorded for the years ended December 31, 2003 and 2002.

ADVERTISING COSTS

Advertising costs are expensed when incurred. Total advertising expense was \$51,992 and \$29,149 for the years ended December 31, 2003 and 2002, respectively.

INCOME TAXES

The Company utilizes the liability method of accounting for income taxes in accordance with SFAS No. 109 ACCOUNTING FOR INCOME TAXES. Under this method, deferred taxes are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted marginal tax rates currently in effect when the differences reverse.

The Company has recorded a full valuation allowance to reduce the carrying value of its net deferred tax assets because it has concluded that it is more likely than not that it will not be realized due to continuing operating losses. The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event the Company was to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase net income in the period such a determination was made.

TREASURY STOCK

The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. The FIFO method is used on the subsequent reissue of shares and any resulting gains or losses are credited or charged to capital.

BASIC AND DILUTED LOSS PER SHARE

Basic loss per common share is computed by dividing net loss available to common shareholders by the weighted-average number of common shares outstanding during the period. Due to the Company having no contracts to issue common stock, diluted loss per share is the same as basic loss per share.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivables and accounts payable approximate fair values due to the short-term maturities of these instruments (presented in assets both from continuing and discontinued operations). The carrying amounts of the Company's long-term borrowings and capital lease obligations as of December 31, 2003 and 2002, approximate their fair value based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, SFAS No. 150, "ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY" was issued. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003. The adoption of SFAS No. 150 did not have a material impact on the Company's financial position, results of operations, or cash flows.

On December 18, 2003 the SEC issued Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB 104"), which supersedes SAB 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS. SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded as a result of the issuance of EITF 00-21, ACCOUNTING FOR

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

REVENUE ARRANGEMENTS WITH MULTIPLE DELIVERABLES. The adoption of SAB 104 did not have a material impact the Company's financial position or results of operations.

16

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | DECEMBER 31, | |
|--------------------------------|--------------|--------------|
| | 2003 | 2002 |
| Equipment | \$ 3,469,821 | \$ 2,782,868 |
| Furniture and fixtures | 182,939 | 161,399 |
| Tenant improvements | 46,870 | 78,091 |
| | 3,699,630 | 3,022,358 |
| Less: accumulated depreciation | (2,343,292) | (1,826,628) |
| | \$ 1,356,338 | \$ 1,195,730 |
| | | |

Depreciation expense for the years ended December 31, 2003 and 2002 was \$559,329 and \$501,238, respectively.

NOTE 5 - NOTES PAYABLE

Notes payable consisted of the following:

| | DECEMBER 31, | |
|--|--------------|------------|
| | 2003 | 2002 |
| Notes payable to a former shareholder; interest rate of 6.75%; paid subsequent to December 31, 2003. | \$ 27,006 | \$ 112,789 |
| Notes payable to partnership; interest rate of 8%; due upon final sale of assets; unsecured. | 20,693 | -- |
| Note payable from a commercial bank; interest rate at prime (4.0% at December 31, 2003); originally due March 2004, subsequently extended to March 2005; secured by personal guarantees and a life insurance policy. | 400,000 | 400,000 |
| Promissory note to bank (in shareholders' name); interest rate of prime plus 1.0% (5.0% at December 31, 2003); originally due May 2004, extended through completion of acquisition; secured by personal guarantees. | 250,000 | -- |
| Line of credit from a commercial bank; with an interest rate at prime plus 2.0% (6.0% at December 31, 2003); currently due; unsecured. | 49,022 | 15,825 |
| | 746,721 | 528,614 |

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

| | | |
|--|-----------|-----------|
| Less: current portion of notes payable | (746,721) | (494,608) |
| | | |
| LONG-TERM PORTION OF NOTES PAYABLE | \$ -- | \$ 34,006 |
| | | |

NOTE 6 - TREASURY STOCK

During 2001, the Company purchased 1,000 shares back from a shareholder for \$50,000 cash. During 2002, the Company repurchased an additional 2,333 shares of common stock from this same individual for \$125,800 under a note payable.

17

NOTE 7 - INCOME TAXES

The Company did not incur any income tax expense for the years ended December 31, 2003 and 2002. Significant components of the Company's deferred tax assets were as follows:

| | DECEMBER 31, | |
|-------------------------------------|--------------|-----------|
| | 2003 | 2002 |
| DEFERRED TAX ASSETS: | | |
| Reserves for uncollectible accounts | \$ 10,924 | \$ 32,202 |
| Deferred revenue | 14,786 | 8,768 |
| Net operating loss carryforward | 353,708 | 82,856 |
| | | |
| Total deferred tax assets | 379,418 | 123,826 |
| Less: valuation allowance | (379,418) | (123,826) |
| | | |
| NET DEFERRED TAX ASSET | \$ -- | \$ -- |
| | | |

The differences between the statutory federal tax rate and the Company's effective tax rate on continuing operations were as follows:

| | YEAR ENDED DECEMBER 31, | |
|--|-------------------------|-----------|
| | 2003 | 2002 |
| Tax benefit at U.S. Statutory rate (34%) | (780,356) | (900,027) |
| State income benefit, net of federal benefit | (75,740) | (87,356) |
| Nondeductible expenses and other | 3,659 | 10,837 |
| Change in valuation allowance, net | 852,437 | 976,546 |
| | | |
| TOTAL TAX BENEFIT | -- | -- |
| | | |

At December 31, 2003, the Company had federal net operating loss carryovers for income tax purposes of approximately \$948,278. These loss carryovers may be subject to annual limitation on their usage and expire 2022 through 2023.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

The Company leases a portion of its property and equipment under the terms of capital and operating leases.

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

Assets recorded under capital leases, at December 31, 2003, consisted of the following:

| | | |
|--------------------------------|--|------------|
| Cost | | \$ 667,768 |
| Less: accumulated depreciation | | (139,047) |
| | | \$ 528,721 |
| | | |

18

Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms of one or more years consisted of the following at December 31, 2003:

| | CAPITAL | OPERATING |
|---|------------|------------|
| Year ending December 31, | | |
| 2004 | \$ 211,075 | \$ 142,551 |
| 2005 | 187,020 | 144,227 |
| 2006 | 93,510 | 151,016 |
| 2007 | -- | 160,232 |
| Total minimum lease payments | | |
| | 491,605 | \$ 598,026 |
| Less: amounts representing interest | | |
| | (34,568) | ===== |
| Present value of minimum lease payments | | |
| | 457,037 | |
| Less: current portion | | |
| | (188,067) | |
| OBLIGATION UNDER CAPITAL LEASE- LONG TERM | | |
| | \$ 268,970 | |
| | | |

The Company incurred rent expense of \$281,091 and \$226,862 during the years ended December 31, 2003 and 2002, respectively.

SUBLEASE RENTALS

During 2003, the Company subleased space to various companies for storing servers and related equipment in an "offsite" environment. The amounts received for these subleases are netted against lease expense. The Company received \$79,197 in sublease rentals during the year ended December 31, 2003. None of these sublease rentals have commitments that extend beyond one year.

CHANGE IN ESTIMATE

Based on settlements and the receipt of additional information received subsequent to December 31, 2002 and 2001, certain accrued liabilities at December 31, 2002 and 2001 were either partially or fully relieved. These items have been accounted for as a change in estimate and adjusted through discontinued operations during the years ended December 31, 2003 and 2002. The effect of these changes in estimate was an increase in income from discontinued operations and decrease to net loss totaling \$523,970 and \$203,905 during the years ended December 31, 2003 and 2002, respectively.

CONCENTRATION OF SUPPLIERS

For the year ended December 31, 2003, the Company had two suppliers of telecom services that represented 12% and 14%, respectively, of cost of revenue. For the

Edgar Filing: ILINC COMMUNICATIONS INC - Form 8-K/A

year ended December 31, 2002, the Company had one supplier of telecom services that represented 31% of cost of revenue.

NOTE 9 - SUBSEQUENT EVENTS

On June 3, 2004, the Company entered into an agreement with iLinc Communications, Inc. (iLinc) whereby iLinc agreed to buy substantially all of the assets and assume certain liabilities of the Company. The acquisition had a stated effective date of June 1, 2004. The purchase price will be based on a multiple of the Company's business revenues. The purchase price will be paid with iLinc's common stock and the assumption of \$2.114 million in specific liabilities of the Company.