

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

VIRTUAL ACADEMICS COM INC
Form 10QSB
May 13, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-QSB

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

For the fiscal quarter ended: March 31, 2002
Commission file number: 033-25900

VIRTUAL ACADEMICS.COM, INC.
(Exact name of registrant as specified in its charter)

Delaware 75-2228820
(State or other jurisdiction of I.R.S. Employer
incorporation or organization) Identification No.)

6421 Congress Avenue, Suite 201
Boca Raton, Florida 33432
(Address of principal executive offices)
(Zip code)

(561) 994-4446
(Registrant's telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

APPLICABLE TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practical date:

On April 25, 2002, the issuer had outstanding 8,701,287 shares of common stock, \$.001 par value per share.

VIRTUAL ACADEMICS.COM, INC. AND SUBSIDIARIES
FORM 10-QSB
QUARTERLY PERIOD ENDED MARCH 31, 2002
INDEX

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

Page

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Consolidated Balance Sheets

As of March 31, 2002 (Unaudited) and June 30, 2001.....3
 Consolidated Statements of Operations (Unaudited)
 For the Three and Nine Months Ended March 31, 2002 and 2001.....4
 Consolidated Statements of Cash Flows (Unaudited)
 For the Nine Months Ended March 31, 2002 and 2001.....5

Condensed Notes to Consolidated Financial Statements.....6-8

Item 2 - Management's Discussion and Analysis and Results of Operations...8-13

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings.....13
 Item 2 - Changes in Securities and Use of Proceeds.....14
 Item 4 - Submission of Matters to a Vote of Security Holders.....14
 Item 6 - Exhibits and Reports on Form 8-K.....14
 Signatures.....14

-2-

VIRTUAL ACADEMICS.COM, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS

| ASSETS | March 31, 2002 | June 30, 2001 |
|---|----------------------|------------------|
| | ----- (Unaudited) | ----- |
| CURRENT ASSETS: | | |
| Cash and Cash Equivalents | \$ 1,566,907 | \$ 1,775,206 |
| Tuition Receivable (Net of Allowance for Doubtful Accounts of \$206,000 and \$193,000, respectively) | 1,784,556 | 2,119,182 |
| Prepaid Recruiting Fees | 88,530 | 145,018 |
| Other Current Assets | 54,254 | 25,830 |
| | ----- | ----- |
| Total Current Assets | 3,494,247 | 4,065,236 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT: | | |
| Computer Equipment and Software | 94,668 | 69,274 |
| Furniture, Fixtures and Office Equipment | 46,932 | 46,932 |
| Leasehold Improvements | 3,051 | 3,051 |
| | ----- | ----- |
| | 144,651 | 119,257 |
| | ----- | ----- |
| Less: Accumulated Depreciation | (53,108) | (32,647) |
| | ----- | ----- |
| Total Property and Equipment | 91,543 | 86,610 |
| | ----- | ----- |

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

OTHER ASSETS:

| | | |
|---|--------------|--------------|
| Tuition Receivable (Net of Allowance for Doubtful Accounts of \$349,000 and \$172,000, respectively) | 924,581 | 379,921 |
| Prepaid Recruiting Fees | 14,177 | 16,511 |
| Deferred Tax Asset | 211,049 | 114,681 |
| Security Deposits | 8,177 | 7,941 |
| | ----- | ----- |
| Total Other Assets | 1,157,984 | 519,054 |
| | ----- | ----- |
| Total Assets | \$ 4,743,774 | \$ 4,670,900 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

| | | |
|---------------------------------|-----------|-----------|
| Accounts Payable | \$ 28,916 | \$ 15,392 |
| Unearned Revenues | 2,728,925 | 2,914,678 |
| Accrued Recruiting Fees | 110,000 | 89,318 |
| Other Accrued Expenses | 198,026 | 137,874 |
| | ----- | ----- |
| Total Current Liabilities | 3,065,867 | 3,157,262 |

NON-CURRENT LIABILITIES:

| | | |
|-------------------------------------|-----------|-----------|
| Unearned Revenues | 392,401 | 336,919 |
| Accrued Recruiting Fees | 17,615 | 19,286 |
| | ----- | ----- |
| Total Non-Current Liabilities | 410,016 | 356,205 |
| | ----- | ----- |
| Total Liabilities | 3,475,883 | 3,513,467 |
| | ----- | ----- |

STOCKHOLDERS' EQUITY:

| | | |
|---|--------------|--------------|
| Preferred Stock (\$.001 Par Value; 1,000,000 Shares Authorized) No Shares Issued and Outstanding) . | - | - |
| Common Stock (\$.001 Par Value; 10,000,000 Shares Authorized; 8,696,287 and 8,604,617 Shares Issued and Outstanding at March 31, 2002 and June 30, 2001, respectively) | 8,696 | 8,604 |
| Additional Paid-in Capital | 1,381,352 | 1,346,944 |
| Accumulated Deficit | (122,157) | (198,115) |
| | ----- | ----- |
| Total Stockholders' Equity | 1,267,891 | 1,157,433 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$ 4,743,774 | \$ 4,670,900 |
| | ===== | ===== |

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

-3-

VIRTUAL ACADEMICS.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | For the Three Months Ended March 31, | | For the Nine Months Ended March 31, | |
|--------------------|---|------------|--|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| | ----- | ----- | ----- | ----- |
| NET REVENUES | \$ 951,554 | \$ 808,031 | \$ 2,537,233 | \$ 1,890,000 |
| | ----- | ----- | ----- | ----- |

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

| | | | | |
|--|-----------|------------|-----------|-------|
| COSTS AND EXPENSES: | | | | |
| Cost of Equipment Sales | 6,363 | - | 6,363 | |
| Instructional and Educational Support | 79,514 | 101,244 | 247,569 | 28 |
| Selling and Promotion | 194,935 | 104,841 | 389,569 | 28 |
| General and Administrative | 654,943 | 441,488 | 1,848,272 | 1,27 |
| | ----- | ----- | ----- | ----- |
| Total Operating Expenses | 935,755 | 647,573 | 2,491,773 | 1,84 |
| | ----- | ----- | ----- | ----- |
| INCOME FROM OPERATIONS | 15,799 | 160,458 | 45,460 | 5 |
| OTHER INCOME: | | | | |
| Interest Income | 8,383 | 9,253 | 31,375 | 2 |
| | ----- | ----- | ----- | ----- |
| INCOME BEFORE INCOME TAXES | 24,182 | 169,711 | 76,835 | 8 |
| PROVISION FOR INCOME TAXES | | | | |
| Current | 97,245 | - | 115,147 | |
| Deferred | (114,270) | - | (114,270) | |
| | ----- | ----- | ----- | ----- |
| Total (Benefit) Provision for Income Taxes | (17,025) | - | 877 | |
| | ----- | ----- | ----- | ----- |
| NET INCOME | \$ 41,207 | \$ 169,711 | \$ 75,958 | \$ 8 |
| | ===== | ===== | ===== | ===== |
| BASIC AND DILUTED: | | | | |
| Net Income Per Common Share - Basic | \$ 0.00 | \$ 0.02 | \$ 0.01 | \$ |
| | ===== | ===== | ===== | ===== |
| Net Income Per Common Share - Diluted | \$ 0.00 | \$ 0.02 | \$ 0.01 | \$ |
| | ===== | ===== | ===== | ===== |
| Weighted Common Shares Outstanding - Basic . | 8,695,294 | 7,503,617 | 8,642,441 | 7,50 |
| | ===== | ===== | ===== | ===== |
| Weighted Common Shares Outstanding - Diluted | 8,946,341 | 7,503,617 | 8,905,565 | 7,50 |
| | ===== | ===== | ===== | ===== |

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

-4-

VIRTUAL ACADEMICS.COM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the Nine Months Ended March 31, | |
|--|--|-----------|
| | 2002 | 2001 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$ 75,958 | \$ 83,263 |
| Adjustments to Reconcile Net Income to Net Cash Flows (Used in) Provided by Operating Activities: | | |
| Depreciation | 20,461 | 11,221 |
| Non-Cash Compensation | 30,000 | - |
| Consulting Expense on Common Stock Options Issued to Non-employees | - | 55,305 |

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

| | | |
|---|--------------|------------|
| Consulting Expense on Stock Options | | |
| Issued to Non-employees | - | 17,820 |
| (Increase) Decrease in: | | |
| Tuition Receivable | (210,034) | (996,346) |
| Prepaid Recruiting Fees | 58,822 | (14,292) |
| Other Current Assets | (28,424) | 42,859 |
| Deferred Income Taxes | (96,368) | - |
| Security Deposits | (236) | - |
| Increase (Decrease) in: | | |
| Accounts Payable | 13,524 | 2,668 |
| Unearned Revenues | (130,271) | 1,364,202 |
| Accrued Recruiting Fees | 19,011 | (54,389) |
| Other Accrued Expenses | 64,652 | (22,472) |
| | ----- | ----- |
| Net Cash Flows (Used in) Provided by | | |
| Operating Activities | (182,905) | 489,839 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of Property and Equipment | (25,394) | (37,354) |
| | ----- | ----- |
| Net Cash Flows Used in Investing Activities | | |
| | (25,394) | (37,354) |
| | ----- | ----- |
| Net (Decrease) Increase in Cash and Cash Equivalents | | |
| | (208,299) | 452,485 |
| Cash and Cash Equivalents - Beginning of Period | | |
| | 1,775,206 | 465,683 |
| | ----- | ----- |
| Cash and Cash Equivalents - End of Period | | |
| | \$ 1,566,907 | \$ 918,168 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for: | | |
| Interest | \$ - | \$ - |
| | ===== | ===== |
| Income Taxes | \$ - | \$ - |
| | ===== | ===== |
| Common stock issued for debt | | |
| | \$ 4,500 | \$ - |
| | ===== | ===== |

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

-5-

VIRTUAL ACADEMICS.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Virtual Academics.com, Inc. ("VADC" or the "Company") is a distance learning company that provides Internet education to students throughout the world. The business is primarily conducted under the names of Barrington University, Virtual Academics.com and Cenuco. Additionally, the Company established a wireless e-learning platform in the academic, consumer and corporate marketplaces. The Company is also engaged in the development and sale of wireless solutions and web services, which include the development of business-to-business and business-to-consumer wireless applications, and state of the art web technology and design services.

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The accompanying consolidated financial statements for the interim periods are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the periods presented. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended June 30, 2001 and notes thereto contained in the Company's report on Form 10-KSB. The results of operations for the nine months ended March 31, 2002 are not necessarily indicative of the results for the full fiscal year ending June 30, 2002.

The consolidated statements include the accounts of Virtual Academics.com, Inc. and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

Certain reclassifications have been made to the prior period's consolidated statements of operations to conform to the current period's presentation.

NOTE 2 - REVENUE RECOGNITION

Through September 30, 2000, the Company recognized tuition and registration revenue evenly over an estimated 24-month instructional period. The Company has developed a new database of student activity, which will allow it to more easily and accurately track student data including student progress on a course-by-course basis. Accordingly, the Company changed its method of calculating revenue to be recognized each quarter. For students registering on or after October 1, 2000, the Company will recognize tuition and registration revenue based on the number of courses actually completed in each student's course of study. For example, if a student completes three out of his nine required courses, the Company will recognize 33% of the tuition regardless of the amount of time that the student has taken to fulfill these requirements. The Company will utilize the previous method for all students registered prior to October 1, 2000. The change in accounting method did not have a material effect on the consolidated financial statements.

-6-

VIRTUAL ACADEMICS.COM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 - OTHER CURRENT ASSETS

In connection with a software licensing agreement with Nokia Mobile Phones Ltd. (the "Licensor"), a Finnish corporation, the Company paid a total of \$108,900 to obtain the right to use and distribute certain software products of the Licensor to be used in or together with the Company's wireless products. The term of the agreement is for a period of one year from the effective date of August 15, 2001. The prepaid licensing fee is being amortized by the Company over the one year term. Accordingly, the Company recorded licensing expense of \$68,062 during the nine month period ended March 31, 2002.

NOTE 4 - STOCKHOLDERS' EQUITY

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

On February 1, 2000, the Company adopted a stock option plan (the "2000 Performance Equity Plan"). The purpose of the plan is to advance the interests of the Company by providing an additional incentive to attract and retain qualified and competent persons as employees, officers, directors and consultants upon whose efforts and judgment the success of the Company is largely dependent. The plan was effective as of February 1, 2000 and, unless sooner terminated by the Board of Directors of the Company in accordance with the terms thereof, shall terminate on February 1, 2010. The plan provides for both incentive stock options and nonqualified stock options to be granted. Options to purchase a maximum of 1,000,000 shares may be granted and the exercise prices of the options granted pursuant to this plan are determined by the Board or an option committee but may not be less than 100% of the fair market value on the day of grant. For holders of 10% or more of the combined voting power of all classes of the Company's stock, incentive options may not be granted at less than 110% of the fair value of the common stock at the date of grant and the option may not exceed 5 years.

On January 15, 2002, the Company issued 5,956 shares of common stock to a consultant to settle debt of \$4,500, which was outstanding as of December 31, 2001 for services previously rendered.

NOTE 5 - SEGMENT INFORMATION

The Company operates in two reportable business segments - (1) the online distance learning industry, and (2) the development and sales of wireless solutions and web services. The latter segment includes development of business-to-business and business-to-consumer wireless applications, and state of the art web technology and design services. The Company's reportable segments are strategic business units that offer different products, which compliment each other. They are managed separately based on the fundamental differences in their operations.

| | For the Nine Months Ended March 31, 2002 | | |
|------------------------------|--|----------------------------|--------------------|
| | Online Distance Learning | Wireless and Web Solutions | Consolidated Total |
| Net Revenues | \$2,448,565 | \$ 88,668 | \$2,537,233 |
| Costs and Operating Expenses | \$2,261,378 | \$ 230,395 | \$2,491,773 |
| Income from Operations | \$ 187,187 | \$(141,727) | \$ 45,460 |
| Interest Income | \$ 29,154 | \$ 2,221 | \$ 31,375 |
| Net Income | \$ 215,464 | \$(139,506) | \$ 75,958 |

-7-

VIRTUAL ACADEMICS.COM, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Litigation

The Trade School Review Association has filed complaints against certain schools that are licensed by local state education departments outside California and on July 3, 2001, it filed against Barrington University in the Superior Court for the State of California for the County of San Diego. The association alleged in its complaint that the Company violated California's Private Postsecondary and

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

Vocational Education Reform Act of 1989, California's false advertising statutes and California's Consumer Legal Remedies Act and sought an injunction against unlawful practices, disgorgement of profits, restitution and attorneys' fees, all in unspecified amounts. In April 2002, the court dismissed this case with Prejudice. The Company recorded a legal expense of \$80,000 in the previous quarter, which is included in general and administrative expenses.

From time to time, the Company faces litigation in the ordinary course of business. Currently the Company is not involved with any litigation which will have a material adverse effect on its financial condition.

NOTE 6 - SUBSEQUENT EVENT

During April 2002, the Company issued 5,000 shares of common stock to an employee for services rendered.

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

GENERAL

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the consolidated financial statements for the year ended June 30, 2001 and notes thereto contained in the Report on Form 10-KSB of Virtual Academics.com, Inc. as filed with the Securities and Exchange Commission. These financial statements reflect the consolidated operations of Virtual Academics.com, Inc. for the nine and three month periods ended March 31, 2002 and 2001, respectively.

This report on Form 10-QSB contains forward-looking statements. These statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The reader is cautioned that all forward-looking statements are necessarily speculative and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. We do not have a policy of updating forward-looking statements and thus it should not be assumed that silence over time means that actual events are bearing out as we estimated in such forward-looking statements.

-8-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS (Continued)

Through our subsidiaries, we are engaged in the online distance learning industry with a focus on the international, second-career adult and corporate training markets. We currently operate our main school, Barrington University, from Mobile, Alabama, where the State of Alabama Department of Education, Code of Alabama, Title 16-46-1 through 10, licenses the school. We offer degrees and training programs to students in over 80 countries and in multiple languages. The programs are virtual in their delivery format and can be completed from a laptop, home computer or through a wireless device.

In addition to degree completion programs, we are focusing on training corporate personnel, continuing education (CE) courses and wireless technology for education, which we believe is a major growth area.

Additionally, we are currently developing affordable wireless platforms to provide companies with quality training services for their employees. Our staff works directly with Human Resource departments to ensure the training is

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

scalable and applicable to their employees' needs. Our technology provides seamless information to all employees, regardless if they are in the home, office or out in the field.

The company has released other wireless application products that are currently being used in the Real Estate, Insurance and Sports Information verticals. The software applications are compatible with all existing wireless devices. We expect to release several academic and training solutions in fiscal 2002. Future applications include solutions for the medical and hospitality industries.

SEASONALITY IN RESULTS OF OPERATIONS

We experience seasonality in our results of operations primarily as a result of changes in the level of student enrollments and course completion. While we enroll students throughout the year, December and January average enrollments and course completion and related revenues generally are lower than other quarters due to seasonal breaks in December and January. Accordingly, costs and expenses historically increase as a percentage of tuition and other net revenues as a result of certain fixed costs not significantly affected by the seasonal second quarter declines in net revenues.

We experience a seasonal increase in new enrollments in August of each year when most other colleges and universities begin their fall semesters. As a result, instructional costs and services and selling and promotional expenses historically increase as a percentage of tuition and other net revenues in the fourth quarter due to increased costs in preparation for the August peak enrollments.

We anticipate that these seasonal trends in the second and fourth quarters will continue in the future.

-9-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS (Continued)

We operate in two reportable business segments - (1) the online distance learning industry, and (2) the development and sales of wireless solutions and web services. The latter segment includes development of business-to-business and business-to-consumer wireless applications, and state of the art web technology and design services. The Company's reportable segments are strategic business units that offer different products, which compliment each other. They are managed separately based on the fundamental differences in their operations.

Nine months ended March 31, 2002 compared to nine months ended March 31, 2001.

As a result of the following factors, we recognized net income of \$75,958 or net income of \$.01 per share for the nine months ended March 31, 2002 as compared to net income of \$83,263 or net income of \$0.01 per share for the nine months ended March 31, 2001.

Online Distance Learning Segment

For the nine months ended March 31, 2002, we had a 34% increase in earned revenues to \$2,537,233 from \$1,899,273 for the comparable period in 2001. The increase in revenues is due primarily to an increase in the number of students that have been registered. Substantial increases in revenue and profitability can be achieved through modest improvements in student course completion rates. Unearned revenue represents the portion of tuition revenue invoiced but not earned and is reflected as a liability in the accompanying consolidated balance sheets. Since we will recognize tuition and registration revenue based on the

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

number of courses actually completed in each student's course of study, student course completion efforts, if successful, are extremely beneficial to operating results. School personnel typically employ an approach based upon establishing personal relationships with students; for example, students may receive a telephone call from a school counselor if they have not completed courses. Our operating results may be impacted negatively by the registration of new students because we incur costs to enroll students but registration fees are initially deferred and then recognized with tuition over the course of the study period, under the guidelines of SEC Staff Accounting Bulletin 101.

Instructional and educational support expenses consist primarily of student supplies such as textbooks as well as postage and shipping, credit card fees, computer related expenses, and printing fees. For the nine months ended March 31, 2002, instructional and educational support expenses decreased by 12% to \$247,569 or 10% of net revenues as compared to \$282,944 or 15% of net revenues for the nine months ended March 31, 2001. The decrease in instructional and educational support expenses and the related percentages was attributable to a second quarter adjustment of \$71,823 for the over-accrual of costs incurred for books and supplies to our students. This was offset by increased credit card fees due to the fact that we encourage students to join our tuition payment program whereby students pay monthly by credit card, and an increase in student supplies. Additionally, computer and internet related expenses increased to \$54,287 or 2% of net revenues for the nine months ended March 31, 2002 as compared to \$42,694 or 2 % of net revenues for the nine months ended March 31, 2001 due to web site maintenance and upgrades as well as the development of additional websites for our wireless products.

-10-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS (Continued)

Nine months ended March 31, 2002 compared to nine months ended March 31, 2001.

Online Distance Learning Segment (Continued)

Selling and promotion expense consists primarily of recruiting fees and advertising. For the nine month period ended March 31, 2002, selling and promotion expenses increased by 15% to \$333,764 or 13% of net revenues as compared to \$289,153 or 15% of net revenues for the nine months ended March 31, 2001. The increase in selling and promotion expenses is attributable to our increased advertising efforts. Although we are currently running advertisements in various national publications and newspapers in order to attract more students, we expect our advertising budget to remain constant through the end of fiscal 2002.

General and administrative expenses, which include payroll, professional fees, consulting fees, rent, travel and entertainment, insurance, bad debt, and other expenses, were \$1,680,045 for the nine months ended March 31, 2002 as compared to \$1,270,444 for nine months ended March 31, 2001. This amounted to 69% of net revenues for the nine months ended March 31, 2002 as compared to 76% for the nine months ended March 31, 2001. The increase was primarily due to four factors:

First, personnel-related costs increased by 44% to \$570,392 for the nine months ended March 31, 2002 from \$396,094 for the comparable period in 2001. This reflected the growth in the number of employees from 13 at March 31, 2001 to approximately 20 employees during the period ended March 31, 2002. We currently have 15 employees as of March 31, 2002 to handle student relations, develop new programs, and perform administrative tasks and to develop our wireless technologies. Second, the cost of professional fees increased to \$258,696 for

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

the nine months ended March 31, 2002 as compared to \$201,007 for the comparable period in 2001. The increase was attributable to the additional costs associated with the filing of a registration statement with the Securities and Exchange Commission during the nine months ended March 31, 2002. Third, the increased costs relating to office operations, such as postage and delivery costs incurred to ship degree program information, computer-related expenses, office supplies and credit card fees, which reflects our increased operational activities. Fourth, the Company recorded \$80,000 in legal expenses related to the dismissal with prejudice of the Trade School Review Association lawsuit in the previous quarter.

Interest income was \$29,154 for the nine months ended March 31, 2002 as compared to \$26,531 for the nine months ended March 31, 2001. We currently invest our excess cash balances in an interest-bearing account with a financial institution.

-11-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS (Continued)

Nine months ended March 31, 2002 compared to nine months ended March 31, 2001.

Wireless and Web Solutions Segment

Our wireless and web solutions subsidiary, Cenuco, Inc., began operations in December 2001. Accordingly, no comparable financial information is available for the comparable period in fiscal 2001.

For the nine months ended March 31, 2002, we had revenues from web design and hosting and wireless solutions amounting to \$88,668. We incurred cost of sales related to the sale of equipment of \$6,363. Selling and promotion expenses amounted to \$55,805, which included \$40,000 in commission expense. We incurred \$168,227 of general and administrative expenses, which includes salaries of \$49,385, licensing fees of \$68,062, and other expenses. Interest income amounted to \$2,221.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2002, we had \$1,566,907 in cash and cash equivalents on hand to meet our obligations, which represented a decrease of \$208,299 from the beginning of the current fiscal year.

For the nine months ended March 31, 2002 and 2001, we had a (negative) positive cash flow from operating activities of \$(182,905) and \$489,839, respectively. During the nine months ended March 31, 2002, we prepaid a licensing fee amounting to \$108,900 in connection with a software licensing agreement. Additionally, we have spent additional cash on payroll for technical staff, related to our wireless solutions development.

We currently believe that with future positive cash flows, we expect to be sufficiently well capitalized to fund our operations over the ensuing 12-month period, including the expected growth during this period. There can be no assurances, however, that there will be positive cash flows or that we will not have to incur significant unexpected expenses.

-12-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS (Continued)

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

LIQUIDITY AND CAPITAL RESOURCES (Continued)

We currently have no significant commitments for capital expenditures and believe that our cash on hand plus future cash flows from operations will provide adequate liquidity for the remainder of the fiscal year based on current operations. If we decide to pursue any acquisition opportunities or other expansion opportunities, we may need to raise additional capital, although there can be no assurance such capital-raising activities would be successful.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (the "Statements"). Statement No. 141 is effective for all business combinations initiated after June 30, 2001, while Statement No. 142 is effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company applied the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of Statement No. 142 did not have an effect on our financial position or results of operations.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Trade School Review Association has filed complaints against certain schools that are licensed by local state education departments outside California and on July 3, 2001, it filed against Barrington University in the Superior Court for the State of California for the County of San Diego. The association alleged in its complaint that the Company violated California's Private Postsecondary and Vocational Education Reform Act of 1989, California's false advertising statutes and California's Consumer Legal Remedies Act and sought an injunction against unlawful practices, disgorgement of profits, restitution and attorneys' fees, all in unspecified amounts. In April 2002, the court dismissed this case with Prejudice. The Company recorded a legal expense of \$80,000 in the previous quarter which is included in general and administrative expenses.

From time to time the company faces litigation in the ordinary course of business. Currently we are not involved with any litigation which will have a material adverse effect on our financial condition.

-13-

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On January 15, 2002, the Company issued 5,956 shares of common stock to settle debt of \$4,500, which was outstanding as of December 31, 2001 for services previously rendered by a consultant.

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

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Edgar Filing: VIRTUAL ACADEMICS COM INC - Form 10QSB

None

(b) Reports on Form 8-K

None

SIGNATURES

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

VIRTUAL ACADEMICS.COM, INC.

Dated: May 13, 2002

By: /s/ Steven Bettinger

Steven Bettinger, President and
Chief Executive Officer

Dated: May 13, 2002

By: /s/ Robert Bettinger

Robert Bettinger, Chairman of the
Board, Treasurer, Principal
Financial and Accounting Officer