

SmartPros Ltd.
Form 10-K
March 27, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2011

or

Transition Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 001-32300

SMARTPROS LTD.

(Name of Registrant in its Charter)

Delaware

13-4100476

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

12 Skyline Drive, Hawthorne, New York 10532

(Address of Principal Executive Office) (Zip Code)

(914) 345-2620

Issuer's Telephone Number Including Area Code

Securities registered under Section 12(b) of the Exchange Act:

Title of Each
Class

Name of Each Exchange on
Which Registered

Common Stock, par value \$.0001 per share

NASDAQ Capital Market

Securities registered under Section 12(g) of the Exchange Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$8,831,991 based on the price at which the common equity was last sold, or the average bid and ask price of such common equity on the Nasdaq Capital Market as of June 30, 2011 the last business day of the Company's most recently completed second fiscal quarter.

The number of shares outstanding of each of the registrant's classes of common equity, as of March 23, 2012:
4,797,231

DOCUMENTS INCORPORATED BY REFERENCE

The information in response to Part III of this Report are incorporated herein by reference to the registrant's Definitive Proxy Statement, to be filed on or before April 29, 2012, with respect to its 2012 Annual Meeting of Stockholders.

SMARTPROS LTD.
 Form 10-K Annual Report
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FORWARD LOOKING STATEMENTS

Certain statements made in this Annual Report on Form 10-K are “forward-looking statements” within the meaning of Section 21E of the Securities and Exchange Act of 1934 regarding the plans and objectives of management for future operations and market trends and expectations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving the continued expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

Forward-looking statements in this report include statements relating to our operating results, the development of new products, the timing of the launch of such products and the timing of any revenue to be generated from such products as well as statements regarding our plans for acquisitions. Whether or not our expectations regarding such forward-looking statements are ultimately realized depends on such factors as our ability to increase revenues, control costs, complete the development of new products in a timely manner and on budget, our ability to successfully market our products, general economic conditions and our ability to successfully identify acquisition candidates and our ability to successfully complete those acquisitions and integrate the newly acquired business into our existing operating and business platform.

The terms “we,” “our,” “us,” or any derivative thereof, as used herein shall mean SmartPros Ltd., a Delaware corporation, its subsidiaries and its predecessors.

PART I

Item 1. Description of Business

Overview

We provide learning and training solutions in content areas that target specific markets, including accounting/finance, legal, engineering, securities, and insurance — all of which have licensing and mandatory continuing education (CE) requirements — as well as banking and information technology. We also provide training in finance, governance, ethics and compliance for the general corporate market. We offer text and video-interactive courses, live training, Webinars and produce custom-designed programs with delivery methods best suited to the specific needs of our clients. Our customers include professional firms and companies of all sizes that purchase our courses for use by their employees, individuals who purchase our courses, programs or subscriptions on a retail basis, state CPA societies, and numerous professional organizations. Our e-marketing and e-commerce divisions sells ads on our Websites and develops customized newsletters and marketing programs for our clients.

Our learning solutions for professionals are designed to meet the initial and/or the ongoing licensing and continuing professional education requirements imposed by governmental agencies and professional standards organizations. Most of the courses in our accounting/finance library are designed to meet the standards and adhere to the requirements of all state boards of accountancy and those of various professional and certifying organizations. These courses are also available to provide educational support for beginning to intermediate-level learners who are not required to take regulatory requirements for CE, allowing clients to deploy our libraries to address learning needs for their entire organization.

Most of our engineering courses have been approved for continuing professional development credit offerings by one or more organizations, including the American Society of Civil Engineers (ASCE), the National Society of Professional Engineers (NSPE) and the American Council of Engineering Companies (ACEC). In addition, we offer courses that help candidates prepare for licensing exams in various engineering disciplines.

Our financial services library consists of courses designed to meet the licensing or continuing education requirements for bankers and financial services professionals, including insurance brokers, bankers and licensed security industry professionals. CE requirements for licensed insurance agents are very complex, vary from state to state, and are usually set through legislative action carrying the force of law. Our financial services library includes courses that meet insurance CE requirements for every state insurance regulatory authority.

All or a portion of our continuing legal education (CLE) library is accredited in thirteen states and the United Kingdom some of our courses are approved in an additional nine states. Unlike the accounting and engineering professions where a national organization oversees the approval process for continuing education courses, in the legal profession each state's bar, judiciary or other organization controls the approval process.

In the general corporate market, our training solutions are designed to meet corporate learning objectives applicable to specific skills and issues regarding integrity, compliance and corporate culture. Our corporate ethics and compliance training programs are designed to align corporate behavior with applicable laws and regulations and generally accepted codes of conduct. We also provide training solutions for sales and other personnel as well as product training for end users.

Our products are available in multiple formats, including print, CD-ROM, DVD and online. We continue to offer our products over the Internet as we believe that is, and will continue to be, our fastest growing delivery channel. Currently, we offer live seminars directed to accountants, legal professionals, and financial services professionals delivered through a number of different channels, including public seminars and customized in-house programs. Our video and online solutions are flexible, cost-efficient and easy to use. They represent cost-effective alternatives to the traditional classroom setting, avoiding travel costs, scheduling difficulties and lost productivity. In addition, we offer clients a robust, comprehensive learning management system (LMS) now known as the SmartPros' eCampus

(eCampus), which we launched in 2011. eCampus now houses all of our content and will eventually replace our current LMS, the Professional Educational Center (PEC), which is still being used by many of our clients. Once the PEC is phased out entirely, all of our customers will reside on a single platform. eCampus provides clients and their employees a platform to fulfill their continuing education requirements online and to track their usage and performance.

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Corporate History

We were organized in April 1981 under the laws of Delaware as Center for Video Education, Inc. In 1998 we changed our name to Creative Visual Enterprises, Ltd. In January 2000 we changed our name to KeepSmart.com, Inc., and in June 2001 we changed our name to SmartPros Ltd.

Industry Background

The American Society for Training and Development (ASTD), in its 2010 State of the Industry report, estimated that in 2009 U.S. organizations spent \$126 billion on employee learning and development. ASTD estimates that U. S. organizations spent \$1,228 per employee on learning and development in 2010. Nearly two-thirds was spent on the internal learning function, such as staff salaries and internal development costs. The remainder was allocated to external services such as workshops, vendors and external events.

Professional and corporate training historically was dominated by traditional classroom instruction. However, advances in communications technology are changing the manner in which corporate training is developed, delivered and tracked. Further, competition demands that today's professionals spend more of their time on revenue-generating matters. The increasing demands made on professionals and corporate managers have led - and we believe will continue to drive - the demand for professional and corporate training solutions available in flexible and cost-effective formats.

Accounting and Finance

The accounting and finance market includes: certified public accountants, certified management accountants, certified internal auditors and corporate accounting, finance and management professionals, most of whom have mandatory continuing education requirements.

The American Institute of Certified Public Accountants (AICPA) claims it has over 369,000 members representing approximately 60 percent of all the certified public accountants in the United States. Approximately 42 percent of the membership of the AICPA is serving in corporate positions, with the balance in professional services, education, government and other. Based on this, we estimate there are currently more than 600,000 CPAs and financial professionals that require continuing professional education (CPE) credit to maintain their license to provide professional services and hundreds of thousands of other financial management professionals that require CPE credit to keep their certifications up to date and in good standing. Beyond the audience of professionals meeting mandated CPE requirements, the Bureau of Labor Statistics in 2010 estimates over 2.1 million accounting and finance professionals are employed in the U.S.

To maintain their licenses, accounting professionals must satisfy the CPE requirements mandated by the state boards of accountancy of the states in which they practice. Although states may differ in terms of specific course requirements or the cycle of the licensing period, every state (other than Wisconsin) and the District of Columbia and the U.S. Territories (other than the Virgin Islands) generally requires an average of 40 hours of CPE credit annually to maintain an accounting license. In 40 states, the District of Columbia and Puerto Rico courses offered by the National Registry of CPE Sponsors, a registry of sponsors approved by the National Association of State Boards of Accountancy (NASBA), automatically qualify for CPE credit. We are an approved NASBA sponsor.

Engineering

According to the Bureau of Labor Statistics, in 2010 there were 1.5 million engineers in the United States and over 600,000 construction managers. In addition, there are over 475,000 engineering technicians who may also need additional specialized training. All 50 states require engineers to take and pass a certification exam to become a licensed professional engineer. The basic entry-level exam, Fundamentals of Engineering (FE Exam), is given twice each year, in April and October. According to the National Council of Examiners for Engineering and Surveying (NCEES), in 2010 approximately 40,000 engineers sat for the FE Exam and 79% passed. In addition, engineers who pass the FE Exam must then take a second exam to be licensed as a professional engineer in a specific area, such as civil engineering or mechanical engineering. For example, the Professional Engineering Civil exam (PE Civil Exam) is the highest-level exam for civil engineers. This exam is also given twice a year, in April and October. In 2010, 65% of the engineers who took the PE Civil Exam passed.

Many states also require licensed professional engineers to complete a minimum number of professional development hours to maintain their professional licenses. Unlike the accounting and finance market, where there is a reasonable

amount of uniformity, in the engineering field each of the states requiring professional development hours sets its own standards. The number of hours required by the states varies from 16 per year to 30 every two years. In most instances, the states rely on various professional organizations to certify whether a particular course qualifies for professional development credit.

Legal

Forty-five states require some form of CLE with requirements ranging between 10 hours per year to 45 hours every two or three years. All courses have to be approved by the respective bar association, judiciary or other organizations in each state. In the legal profession, each state, rather than a national organization, exercises control over the requirements and content approval of continuing legal education courses. This makes the approval process more difficult.

Financial Services

Financial services firms, such as banks, brokerage houses and insurance companies, have employees, other than accountants and lawyers, who hold various licenses granted by the federal and/or state governments or administrative agencies that require continuing education or need training to prepare for their various professional licensing examinations.

Ethics & Compliance

Over the last 10 years, legislators, government and market regulators, the investment community and the general public have become more focused on issues involving corporate governance, ethics and compliance. Allegations of sexual harassment, accounting fraud and mismanagement, excessive executive compensation, breach of fiduciary duties and insider trading at some of the largest corporations and financial institutions has fueled this new consciousness. In some cases, corporate mismanagement and misbehavior have resulted in substantial investor losses and fines, penalties or damages. In response, the U. S. Congress passed the Sarbanes-Oxley Act of 2002, which imposes corporate governance standards on publicly traded companies and authorizes the national securities exchanges and other regulatory bodies to impose their own strict standards. As a result, public companies, mutual funds, market specialists and corporations in general are more accountable to their stockholders and regulatory overseers and the public.

Information Technology

To the best of our knowledge there are no governmental continuing education requirements applicable to IT personnel. However, given the pace and frequency with which existing technologies evolve and new technologies are developed, continuing education is imperative for information technology professionals.

Our Business

Since becoming a public company in 2004, our business has expanded significantly, primarily through acquisitions. Today, we serve five professional markets (accounting/finance, engineering, financial services, legal and information technology) and provide training solutions to a wide range of clients in various industries.

Our business is designed to satisfy the growing needs of:

professionals and their employers to comply with initial and continuing professional education requirements in a flexible and cost-effective manner;

businesses to provide their employees and managers with training programs addressing the needs of their respective industries, corporate governance, ethics and compliance issues; and

professionals and businesses to be able to track and monitor their and their employees' compliance with continuing education requirements and to assess the effectiveness of their educational programs.

To address these needs, we have approximately 2,600 hours of programs currently available in one or more formats including print, videotape, CD-ROM, DVD or online, consisting of the following:

- 1,200 hours in accounting/finance,
- 600 hours in engineering,
- 600 hours in banking, securities and financial services,
- 100 hours in legal training, and
- 100 hours in information technology.

These figures do not take into account custom-designed courses or live training programs. Through Skye and some of our other divisions, we develop customized courses based on specifications provided to us by our clients in both financial and non-financial industries. In addition, Loscalzo and EEI provide live training programs for accounting

and financial professionals, Selbst provides live training programs for financial services and Skye designs customized courses for corporate clients in various sectors, including pharmaceuticals. Most of our courses are designed to accommodate both group and self-study.

We are now able to provide our clients that have employees with various educational needs our multiple libraries. As all our libraries are supported by our LMS this provides a better learning solution for them. For example, many of our information technology titles are particularly relevant to our financial library audience helping those professionals engaged in audit oversight of their corporate IT departments.

The vast majority of courses in our accounting and finance professional libraries are designed to meet the standards and requirements of all state boards of accountancy and those of the AICPA, Institute of Management Accountants (IMA), Institute of Internal Auditors (IIA), the Association of Financial Professionals (AFP) and the Association of Government Accountants (AGA). We are a registered sponsor of continuing professional education with NASBA, and in New York and Texas. NASBA also confers the status of Quality Assurance Service on organizations that offer self-study courses that meet the requisite standards. We have met those standards and received that status. As a result, our designated programs qualify for CPE credit in all 50 states for certified public accountants, certified management accountants, certified internal auditors and certified financial managers.

Our engineering products include courses designed to help prepare engineers for the FE Exam, the basic entry-level licensing exam, and the subsequent professional engineering licensing exam (PE Exam). We offer courses for PE exam candidates in mechanical, electrical power, civil, environmental and chemical engineering. Our courses are designed to meet the ongoing professional development requirements mandated by various states. We often jointly develop with or license these programs from an independent third party. Our engineering courses are available in print, CD-ROM, DVD and/or online. We also produce courses for project management, review courses for the "Certified in Production and Inventory Management" certificate, "green" engineering and the Leadership in Energy and Environmental Design Green Certification (LEED GA) exam review. We also offer courses from our SPA library, such as "Accounting for Non-Accountants."

Our SmartPros Legal and Ethics, Ltd. (SLE) subsidiary develops ethics and compliance training and CLE programs. Ethics and compliance programs, designed and offered by our Working Values division, are designed to align workplace behavior with legal standards and prevailing community expectations regarding corporate conduct. We also develop modular training strategies that track specific risk areas identified by the client. Our library of customizable learning tools, in digital and print formats, enables us to develop training solutions tailored to the individual corporate cultures of each client at competitive prices. The result is an integrated program that closely reflects the culture of, and the issues facing, the client while still maintaining the cost advantages of a generic solution.

SLE's Cognistar division provides learning solutions to the legal and corporate compliance market. Cognistar products include accredited CLE programs and customized corporate training programs. These include self-paced courses in a content-rich, engaging environment. Taking full advantage of the Internet, these solutions are provided at significantly lower cost than other continuing education experiences.

Our Skye Multimedia, Ltd. (Skye) subsidiary custom designs training programs for a number of industries including pharmaceutical, financial services and others. Skye has developed a suite of sales training tools, including iReflect (a joint venture of which we own 50 percent), Role-Play Certification Tool and the Coaching Toolkit. Individually, these tools provide innovative solutions for training and coaching. Collectively, in combination with Skye's custom e-learning development they provide a complete learning solution from initial training to reinforcement for a variety of job roles such as sales and customer service.

SmartIT, our information technology training division's library known as WatchIT, includes more than 100 courses providing relevant briefings to executives, technologists and consultants with up-to-date information in the ever-changing technology landscape.

Our Financial Services division offers over 300 course titles covering the insurance, banking and securities industries. These courses can be delivered online, in a multimedia Web-based format or through live training. Many of these courses have been approved for credit by different organizations for continuing education in their respective fields.

Strategic Partners

We have strategic relationships with a number of professional organizations and societies with whom we co-market, co-brand or jointly develop products. While no single relationship is material to overall business, if all of these relationships were to terminate simultaneously, our competitive position in the marketplace would be adversely affected. Some of our partners and the nature of our relationship with them are as follows:

Financial Executives International (FEI) and Institute of Management Accountants (IMA). FEI and IMA both market our Financial Management Network (FMN). We are responsible for producing the product with FEI and IMA, assisting in topic selection and with providing speakers. We also are primarily responsible for selling the product. We also sell our SmartPros Advantage (SPA) line of products through FEI and IMA. EEI also offers live programs to FEI members.

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Institute of Internal Auditors. IIA offers the online version of FMN and SPA to its members through a co-branded PEC.

State Societies of Certified Public Accountants. A number of state societies offer our products through their own co-branded PEC.

Our Strategy

Our objective is to be a leading provider of professional and corporate training solutions in the United States. To achieve this goal, we will pursue the following strategies:

Expand library of content. We believe that our future success depends, in part, on our ability to develop and acquire new content. The new content could either expand or supplement our existing libraries or could constitute a new library for one or more additional vertical markets. Toward this end, we continuously develop new courses and programs for our accounting, engineering, legal, information technology, financial services and general corporate libraries.

Develop new products and applications. We continue to develop new products that utilize our existing content as well as entirely new content. Examples of new product development and new product lines include Skye's iReflect, Role Play Certification Tool and The Coaching Toolkit, SmartPros eLP, CourseBuilder 2.0 and Green Engineering, all of which are discussed elsewhere in this Item 1. We are continuously adding courses to our various libraries and seeking new marketing partners. With the launch of eCampus in the spring of 2011, we are now able to promote and access all of our online content and training solutions through one seamless, user-friendly portal. We are developing applications that run on iPads and other mobile devices and enabling the content in our libraries to run on these devices as well.

Expand within existing markets and into new markets. We continue to focus on expanding our market share in the verticals we currently serve particularly engineering, legal, financial services and information technology, where we feel our market share is relatively small. In addition, we will investigate expanding into completely new markets that we think are potentially lucrative such as healthcare, safety and personal development. Our sales efforts are also directed to providing a complete learning solution to our clients who have employees with various disciplines and educational needs.

Make strategic acquisitions. We believe that the most efficient way for us to expand our libraries, increase our share of the markets we currently serve and penetrate new markets is through strategic acquisitions. Since our initial public offering in October 2004, we have consummated ten acquisitions ranging in size from \$24,000 to approximately \$4.4 million.

Keep pace with technology. We believe that our ability to deliver our products in multiple formats is critical to our continued success. The broad acceptance of the Internet as a content delivery tool will continue, making it an increasingly important medium for distributing our products. At the same time, we recognize that new technologies may emerge that will complement our model for flexible delivery of content.

Expand existing alliances and enter into new strategic alliances. We believe that alliances with professional organizations and associations and commercial content providers are important to our growth and competitive position in the industry. We plan to try to broaden these existing relationships and seek new ones.

Our Products and Services

The following are our products and services:

Accounting and Finance

Our accounting and finance libraries, exclusive of Loscalzo and EEI (as described below), contain over 1,200 credit hours of content. Except for SmartPros Advantage (discussed below), which is only available online, our other accounting and finance programs are available either in DVD format or online. In addition, we can also deliver instruction through live or recorded Webinars. This format can be used for either group or self-study. The online format is for self-study only and is available as text only, text with audio, or in a multimedia format that includes text, audio and streaming video. All video courses come with a hard copy of the program and are used primarily for group study. All online courses include downloadable text materials, easy-to-follow course outlines, interactive quizzes and the ability to track credits and print completion certificates. In most states, video and online self-study programs qualify for two hours of continuing professional education credits, while video group study qualifies for one hour of continuing professional education credit. Our clients can purchase either a single program or a subscription to a series

of programs. Prices depend on the length of the subscription (one, two or three years), the number of users and the number of libraries covered.

Loscalzo. Loscalzo offers seminar programs covering a variety of accounting, auditing and assurance topics (including those that meet both the 24 hour and 80 hour Yellow Book requirement for governmental audits), employee benefit plans, governmental auditing, not-for-profit auditing, risk assessment auditing, fraud, professional ethics and staff training. These

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courses are offered through various state CPA societies, accounting and professional services firms, association of accounting firms and corporations. We also conduct our own training seminars in two states and have the ability to deliver instruction through live Webinars or recorded Webcasts.

Executive Enterprise Institute. EEI offers a series of live training seminars in both the corporate and public accountant marketplace. Some of the courses qualify for CLE credit as well. These seminars are usually one to three day events held in various locations throughout the United States and include topics such as international taxation as well as accounting standards and Securities and Exchange Commission updates. EEI also offers in-house training to meet its client's specific needs through various mediums, and CPE administration.

SmartPros Advantage. SPA is a skills-based learning library containing approximately 300 courses that vary in length from one to eight credit hours. We produce these programs in our own production facility and pay the authors or content providers of these programs a royalty. This library is marketed primarily to corporate accounting and finance professionals and public accountants. The courses are offered either individually or on a subscription basis.

Financial Management Network. FMN is a library of programs dealing with current, relevant topics. We create four new courses a month for a total of 48 new segments a year. This is equal to 48 group-study credit hours and 96 self-study credit hours each year. We also maintain an online archive containing the most recent 72 programs representing 144 credit hours for our subscribers. The segments are written and produced by our staff and generally involve an interview with an independent industry professional. The material is presented in a question and answer format. These programs are marketed primarily to corporate accounting and finance professionals. FMN courses are offered either in video-based format or online.

CPA Report. CPAR is a library of programs covering topics in public accounting and is distributed primarily to accountants in public practice. Each month (except March) we add four new courses from among the following topical areas: individual tax, business tax, estate and financial planning, specialized tax topics, auditing and accounting and financial reporting. We also offer an online archive containing the most recent 44 programs representing 88 credit hours. CPAR is offered either in a video-based format or online.

CPA Report Government and Not-for-Profit. This product is a library of programs designed specifically for accounting professionals employed by federal, state and local governmental agencies or not-for-profit organizations. Each quarter we distribute four new programs: two for government accountants and two for not-for-profit accountants. We also publish an online archive containing 16 of the most recent programs representing 32 credit hours. The CPAR Government and Not-for-Profit programs are offered in either a video-based format or online.

This Week in Accounting and This Week in Taxation. Each of these products is a series of one hour weekly Webinars covering current topics applicable to accounting and tax professionals. Each of these products generally qualifies for one hour of CPE credit.

Custom Products. In addition to the subscription-based libraries above, we also produce customized programs for our clients. In some cases, the client will author the content and retain us to videotape the program and convert it into a digital format that can be distributed via the Internet or internally through a corporate intranet. In other cases, we will write and produce the entire program for the client. We then deliver this custom content either through our proprietary LMS, the client's own LMS, or through live training. These customized products can be designed to qualify for CPE credit. We can also do CPE administration for courses or programs produced by our clients.

Engineering

Our engineering library includes the following:

Fundamentals of Engineering Exam Review. This is a preparatory course for the basic entry-level licensing exam that all engineers are required to take. It is a Flash-based, interactive review course that is being marketed directly and through professional associations to engineers and to engineering firms for their internal skill-building and competency testing programs. It is available in CD-ROM and online. We also private label the course so our strategic partners can market it to their members. The self-study version of this course also provides for instructor mentoring.

PE Civil Exam Review. Our interactive PE Civil Exam review course for civil engineers was developed jointly with the American Society of Civil Engineers (ASCE) and the Boston Society of Civil Engineers and is designed to prepare engineers for their professional licensing exam. The PE Civil Exam review course, with over 50 hours of material, is an interactive multimedia tool that simulates the actual professional engineering exam using demonstration problems

comparable to the problems found on the actual exam. The course includes seven complete, self-contained course modules that cover the following subjects: geotechnical, structural, transportation, water resources, environmental, and construction. In addition, there are two bonus sections — economics and surveying review — to help prepare for the exam.

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We also offer a series of self-study PE Civil Exam preparation courses that cover the civil, mechanical, electrical and chemical disciplines. This coursework, which covers the same set of modules as our CD-ROM or online version, is a paper-based, self-study format that provides for instructor mentoring via e-mail, telephone or submission of mini-exams for grading. The environmental and mechanical course work is available on CD-ROM.

Online Professional Development Hours. We have a library, consisting of 250 hours, of engineering and management courses that qualify for professional development hours. For example, in the civil technical area we have over 50 hours of course material on various topics relating to technical practice. Over half of the content in this library was developed with the ASCE.

Project Management for Engineers. This course was developed by, and is designed specifically for, engineers. It was one of the first completely interactive online project management courses. The online format is enriched with audio and interactive graphics and allows the user to determine the pace of study. The program is divided into 11 critical sections with over 60 individual learning modules. It provides over 35 hours of continuing professional development credit.

Supply Chain and CPIM Certification. We provide to members of American Production and Inventory Control Society (APICS) a series of five courses that can be taken as either stand-alone coursework or together to become certified in Production and Inventory Management (CPIM). The courses are designed to help the user develop knowledge and skills in the essential areas of materials management and integrated resource management. Each APICS self-study course requires approximately 25 to 30 hours to complete.

Green Engineering. In 2009 we launched a Green Engineering Website (www.greenengineering.smartpros.com) to provide online courses to meet the green and sustainable engineering and clean power education needs in the engineering marketplace. The site includes a new series of exam preparation courses for the LEED GA certification in compliance with the U.S. Green Building Council requirements. We also offer power management courses for mission critical power and efficient sustainable energy education through a joint distribution arrangement with Power Management Concepts, a technology company. These courses are eligible for professional development credits.

Corporate Governance, Compliance and Ethics

SLE develops corporate governance, compliance and ethics programs for major corporations and other business enterprises. SLE currently offers the following products and services:

Custom-built training and compliance programs for companies based on their specific needs through its Integrity Alignment Process. The intent is to meet the best practices standards of the Federal Sentencing Guidelines and other regulations. These products help create a culture of compliance through assessment methodologies and deployment of live and Web-based training and communication tools.

Tools to assess employee attitudes and awareness of critical integrity and anti-fraud risks and also an assessment that provides an objective snapshot of the values that underlie employee behavior, making it possible to translate qualitative data into quantitative data.

“Ethics training” is a curriculum of learning experiences designed to meet specific integrity risks. Training can be designed to meet the individual needs of various audiences, including senior leaders, managers or all employees.

Ready-to-deploy tools to help an organization customize its ethics program. These tools can be deployed as-is or customized to meet an organization’s needs. The Financial Integrity Suite of Products offers enterprise distribution and administration of education content and information.

Compliance and Ethics Effectiveness Quotient is a best practices and principles benchmark designed to help organizations build ethical and engaged cultures. It does this by providing a framework for evolution into an organization whose employees are highly aligned with the organization’s values, standards, vision and mission. It draws on industry best practices from various disciplines including compliance, ethics, legal, risk management, human resources and internal audit.

Legal

Cognistar offers approximately 100 online CLE courses. These courses are accredited for over 100 hours of CLE credit in approximately 22 states. Not every course is approved in each state. In addition, Cognistar develops customized courses for its clients on a consulting basis.

Financial Services

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Our Financial Services division includes our FinancialCampus (FC) libraries and Selbst. FC sells online training courses for the banking, insurance and securities industries. Selbst primarily provides live training to those industries. This division has over 300 courses totaling over 600 hours in the banking, securities and insurance areas. Course offerings include: banking compliance, general banking, general bank management, insurance, lending, retirement and estate planning, securities, ethics, anti-money laundering, financial planning and industry-related sales and service. Approximately 100 of these courses have been accredited by various state departments of insurance for continuing education credit. Many other courses have been approved by the American College for PACE credit and the Certified Financial Planners Board of Standards for CFP credit. In addition, we have courses in our library to prepare various insurance and financial services employees in taking their licensing exams. These courses are offered in a number of different mediums including web-based, video, multimedia and workshop format.

Information Technology

Our SmartIT division includes more than 100 courses from our WatchIT catalog. These courses are designed to update and inform technology professionals about the latest initiatives in their field. In 2011, we introduced a new product, "Accounting and Finance Technology Monthly", designed to keep accounting and finance professionals informed of the newest trends in technology related to their jobs. This is an annual subscription based product that qualifies in most states for CPE credit.

General

Through Skye we provide general corporate training to any number of industries, including pharmaceutical manufacturers and financial services. These programs are custom produced to meet the client's specific needs and may include product or sales training, technical proficiency or other uses. These programs can be delivered in a variety of formats, including over the Internet, on an LMS, as well as on the iPad or other mobile devices. Our custom development also provides us the opportunity to cross-sell our other products and services to these companies. Skye also markets iReflect, a training tool designed to enhance sales presentation skills. In addition, Skye markets its Role-Play Certification Tool and The Coaching Toolkit. Revenues from these products can include hosting, customer service and maintenance fees.

Technology

Our technology department is principally a service department. Its primary function is to convert our courses to digital format for distribution on CD-ROM, DVD and the Internet. This department also maintains our various Websites, our various LMS platforms (i.e., PEC and eCampus), for subscribers to our accounting/finance, legal and engineering products. It also develops new products that can be used both internally and are available for sale or license to our clients. For example, SmartPros eLP is a database driven eLearning delivery application capable of delivering content to any Flash-enabled computer. This product provides greater functionality for the user and the client's educational administrator.

Another example is our new LMS, eCampus, which combines all our properties on a single platform and fosters better communication tools with enhanced cross-selling potential. We have begun work on a new HTML5 version of our eLP content player for use with Apple iPad and iPhone. eCampus is a turnkey system designed to manage the educational subscriptions, student accounts, e-commerce and reporting needs of our clients. Using eCampus, our clients can review and assess usage of our programs by their employees and their employees' performance and the effectiveness of these programs. eCampus is co-branded with the client's logo and delivered using an application service provider hosted infrastructure model that requires no client technology resources. For those clients who have their own LMS, we develop an interface that allows them to access our system through their technology. In 2011, we began marketing and offering eCampus as a stand-alone product to companies that need a LMS, but have no need for our content.

The technology department also generates fees through Website development and hosting, and consulting arrangements. For example, companies that have internal education programs have engaged us to convert those programs from workbook, instructor-led or videotaped-based courses to an e-learning format. We also offer our customers a broad range of support services, including technical support for our LMS. We believe that providing a high level of customer service and technical support is necessary to achieve a high level of customer satisfaction and sustained revenue growth.

Other

Most of our programs are produced in our in-house production facility where we have CD-ROM and DVD duplication equipment. In addition, the video production department generates its own revenue by leasing the facility to third parties and by producing third-party programs.

Product Development

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Our product development team includes Jeffrey Jacobs, Jack Fingerhut, John Fleming, Denise Stefano, Glenn Shapiro and Bruce Pounder in the accounting/finance area; Jay Gregory and Michael Fowler in financial services; James Fallon in information technology; Mark Luciano in the engineering area; and Stephen Henn in the legal, ethics and compliance area.

Mr. Jacobs, our vice president of product development, is an attorney and has been developing continuing education programs for accounting and finance professionals since 1987. Mr. Fingerhut, one of our co-founders and our president, oversees the development of our accounting programs and new product development. Mr. Fleming is a certified public accountant and president of Loscalzo. He is responsible for instructing, writing and editing Loscalzo courses. Ms. Stefano is a certified public accountant and a professor of accounting. She is responsible for updating existing courses, and introducing new courses in our SPA catalog. In addition, she is director of technical content for Loscalzo. Mr. Shapiro is the president of EEI, an attorney and has over 20 years experience in the professional training industry. He is currently responsible for the development of new courses and marketing of EEI. Mr. Pounder joined us in 2011 when we acquired his program known as "This Week in Accounting" and has recently been named director of professional programs for Loscalzo. Mr. Henn, also an attorney, is the president of SLE and joined us when we acquired Cognistar. He is responsible for developing course content and customization in the legal area. He is also develops products and services in the ethics area. Mr. Luciano has been involved in corporate online education for the past 15 years and currently heads our Engineering and HCE divisions and is responsible for developing new course content. Mr. Gregory and Mr. Fowler joined us when we acquired FC. Mr. Fowler was formerly the senior director of business development at Thomson NETg. Mr. Gregory was formerly vice president of operations at Thomson NETg. Messrs. Gregory and Fowler co-head our Financial Services division and Mr. Fowler is senior vice president of field sales. Mr. Fallon is the producer of our WatchIT product and has been developing programs for information technology professionals for over 10 years. Finally, Seth Oberman, the president of Skye, develops and markets customized courses and training programs for the pharmaceutical, financial services and other industries that Skye services.

We continue to devote our resources to developing programs. We hire independent contractors to update, develop or assist in developing programs for us. In those instances where we are relying on outside sources for content or where we purchase existing content, our design and development team will develop or oversee the development of an effective format that focuses on performance objectives, instructional anti-practice strategies, interactivity and assessments. This process includes creating and designing study guides and course material, scripts and, in some cases, visual aids. The design and development team includes subject matter experts, instructional designers, technical writers and developers, graphic designers, content editors, and quality assurance reviewers. After final assembly and integration of all course components, we test to ensure all functional capabilities work as designed and deliver the desired learning experience and result.

Sales and Marketing

Our sales and marketing strategy is designed to attract new customers and build brand awareness. We market our products through our alliances with professional organizations and associations, through our own inside telemarketing sales force, our outside sales force, direct marketing using catalogs, brochures, email blasts and through our Websites. We believe that this strategy allows us to focus our resources on the largest sales opportunities while simultaneously leveraging our strategic relationships.

Our sales and marketing department includes our president, a senior vice president of sales, a vice president of marketing, and a sales staff of 19 people. The sales staff is divided between inside (telesales) and field sales. The field sales force focuses on larger accounts. In addition, our senior executives and the heads of various divisions dedicate varying portions of their time and efforts to sales and marketing activities. Our chief technology officer spends a portion of his time selling and marketing our technology services. The president of our EEI division also supports the marketing of strategic initiatives being introduced to our customers. We have recently hired additional sales and support staff in anticipation of increased demand for our products and services due to improvement in general economic conditions and, assuming the economy continues to grow, we will add sales and support staff commensurate with increased demand for our products and services.

To market directly and to supplement the efforts of our sales staff, we use comprehensive, targeted marketing programs, including direct mail to our customers and to members of the professional organizations with which we partner; public relations activities; advertising on our Websites and the Websites of our strategic partners; participating in trade shows; and ongoing customer communication programs. We build brand awareness through our strategic relationships with the leading professional associations and organizations and the leading commercial content providers within the markets we serve. These strategic relationships include co-branding initiatives on new and existing products, joint advertising campaigns and e-commerce relationships.

Technology

eCampus employs a logical and physical architecture that facilitates rapid development, deployment and customization of Internet-based solutions for organizational e-learning. Our core systems use a series of scalable application web servers,

XML and MS-SQL data sources, and utilize industry standard web browser and Internet technologies for content delivery to the users. To ensure limited downtime and product lines that are free of bandwidth limitations as they grow, our redundant server system is located at secure Verizon co-location data centers in Elmsford, New York and Englewood, Colorado. These co-locations grant us the freedom to completely control our server infrastructure while providing us with 24/7 monitoring, support, redundant Internet connectivity and full generator power backup. eCampus includes a scalable suite of applications and features that can be streamed via the Internet or a corporate intranet. The basic features of the system allow asynchronous streaming of video and audio courses combined with media-timed synchronization of supplemental material, online quizzes and final exams. Student interaction is enhanced through the use of real-time questions to content experts with quick response. This full-service solution includes a complementary array of communication tools such as email, chat, message boards and learner tracking. The tracking of educational needs both internal to the system and external education opportunities, such as stand-up and leader-led training, are maintained using a student-managed course tracking feature called “My Courses.” Some key features of eCampus include:

- Scalability. Scalability is accomplished using a combination of load-balancing hardware and software. Multiple, redundant servers are deployed to handle peak periods when the largest numbers of concurrent users are expected on the system.
- SCORM/AICC Connectivity Layer. Where required, we use both Shareable Content Object Reference Model (SCORM) and Aviation Industry CBT Committee (AICC) Connectivity layers to ensure our content is deliverable through a variety of enterprise e-learning systems other than eCampus. Additionally, the core foundation is capable of exchanging data with third-party legacy systems with minimal effort.
- Standard Relational Database Server. To enhance performance and ensure that users are served efficiently, the core foundation executes database-stored procedures to optimize intense database processing. The core foundation currently supports Microsoft SQL Server databases.
- ASP.NET-based Application Server. The business and application logic resides on an ASP.NET-based application server. This architecture allows us to deploy a site across multiple servers using Microsoft Windows 2003 and 2008 servers.
- Electronic Commerce Enabled. The core foundation includes interfaces to external electronic payment services, enabling real-time electronic commerce. This allows the instant purchase of both one-off and subscription-based e-learning courseware.
- Internet Multimedia Content Delivery. We deliver high quality, low bandwidth video and audio via the Internet, intranets and extranets. This multimedia content enhances and personalizes the learning experience. We use Flash Media and other technologies as the delivery mechanism for this content.
- Low Bandwidth/High Impact Animations. Using Macromedia’s Flash technology, we deliver both animated and spoken educational material with minimal load on corporate networks.

Competition

The market for continuing professional education and corporate learning solutions is large, fragmented and highly competitive. We expect these characteristics to persist for the foreseeable future based on the following factors: the expected growth of this market, as demand for highly skilled professionals increases; the increased scrutiny on corporate culture, ethics and compliance; and relatively low barriers to entry.

Of the markets we currently serve, we believe that all of our professional education markets have some barrier to entry plus a multitude of regulatory compliance requirements. It would be extremely difficult to compete in the accounting education market without NASBA sponsor designation. Obtaining this designation requires an investment of time and a modest amount of capital. Nevertheless, for companies with even modest resources in terms of talent and capital, these barriers may not be significant. In the legal profession, the approval process for continuing education courses varies by state, unlike accounting. In the engineering market, each state sets its own standards, as does each engineering specialty. In the corporate education market, the barriers to entry are virtually non-existent. The financial services industry has various barriers to entry as employees requiring continuing education are subject to federal and/or state regulations. In addition, customers expect courses covering a broad range of topics related to regulatory concerns. The course library and its delivery platform must meet very rigid controls

in order to be preapproved. Information technology education has limited barriers to entry as there are no regulatory requirements.

We believe that the principal competitive factors in our industry are:

- Breadth, depth and relevancy of the course content
- Performance support and other features of the training solution
- Reputation of presenter
- Adaptability, flexibility and scalability of the products offered
- Liquidity and capital resources
- Deployment options offered to customers
- Customer service and support
- Price
- Industry and professional certifications
- Brand identity
- Strategic relationships

We believe that we compete favorably on most of these issues. While price is always a competitive factor, we do not believe that we should compete solely on that basis and, in fact, many of our competitors sell their products for less than we sell ours. Particularly in the accounting, legal, financial services and information technology markets, we believe that our reputation and the quality of our offerings — as well as our other competitive advantages, including the breadth, depth and relevancy of our libraries, strategic relationships, our learning content management system, our customer service and support and the flexibility of our delivery options — allow us to price our products accordingly. In the engineering and general corporate markets where we have not established our reputation to the same extent, we have less flexibility when it comes to price. In the corporate compliance area we believe that what will ultimately differentiate us from our competitors will be our ability to create programs that are designed to meet the specific corporate cultures of our clients.

Our competitors vary in size and in the scope and breadth of the products and services they offer. They include public companies such as Saba Software, Inc., and private companies such as Skillsoft, CPA2Biz, Inc., Bisk Education, Inc., MicroMash, Center for Professional Education, Inc. and Western Publishing, Inc., in the accounting market; RedVector.com, Inc., Professional Publications Inc. and various professional organizations in the engineering market; and LRN, The Legal Knowledge Company, Integrity Interactive Corporation, SAI Global, Ltd. and Corpedia in the corporate compliance and ethics market. In the financial services market our competitors include Kaplan Financial, RegEd, WebCE, BVS, Sheshunoff, and various trade associations. In addition, we also compete with universities, professional and other not-for-profit organizations and associations, some of whom are also our strategic partners and/or clients. Potential competitors include professional organizations such as the AICPA as well as each state's society of certified public accountants. Other competitors include large diversified publishing companies such as The Washington Post Company, Thomson Financial and Pearson Education, other education companies (including traditional providers of in-classroom instruction and remote learning solutions such as DeVry University), and professional services companies, including accounting firms who are looking for alternative sources of revenue. Competition may also come from technology and e-commerce solutions providers. Internet-based learning solutions have become increasingly popular in recent years along with the increased demand for flexible, cost-effective alternatives.

Some of our existing and potential competitors have greater resources, financial capabilities, market penetration, and more extensive libraries providing potential to establish a stronger competitive position than us. For example, one of our competitors is CPA2Biz, an affiliate of the AICPA. SkillSoft and Saba are both relatively large companies. However, SkillSoft's primary focus is e-learning content and software products for business and information technology professionals. Saba principally provides software solutions that are used to manage people in large organizations, although they do sell content as well. Since we can now market eCampus as a stand-alone product, we will compete with Saba in this area. However, many of our larger clients use the Saba system or another LMS. In those cases, we will interface with their LMS and allow the client to access our courseware while cross-posting student progress between ours and the client's LMS.

The largest solutions providers to the general corporate compliance training market are SAI Global, Ltd. and LRN. We rarely face either of these companies in the marketplace since they both focus principally on Fortune 100 companies and have extensive off-the-shelf libraries. However, their products tend to be more expensive than ours, and we believe that our ability to adapt programs to address unique cultures of different organizations is greater than theirs. Another competitor is Corpedia, which markets off-the-shelf and customized programs to mid-and large-cap public companies. Corpedia has the advantage of a vast library. We believe that we have more diverse tools and can offer an integrated ethics and compliance program that contains live, video and Web-based communication and learning elements.

Our principal competitors in continuing legal education are the Practising Law Institute, West LegalEdCenter, ALI-ABA, CLEonline, and various state bar associations.

Our principal competitors in the area of financial services compliance training and continuing education for bankers include Bankers Edge, Bankers Academy (The Edcomm Group) and banking associations such as BAI, Bankers Training & Certification Center, and various banking trade organizations.

Our principal competitors in the area of engineering education are RedVector.com, Inc., university-based extension programs, individual trainers and professional organizations.

Our principal competitors in the area of information technology include SkillSoft and Global Knowledge.

Our Competitive Advantages

We believe that the following competitive advantages will help us achieve our goal of becoming a leading provider of learning solutions for the professional and business communities.

History and reputation. We have been providing learning solutions for accounting and finance professionals for more than 30 years. We believe that in the accounting/finance market we have the reputation of being a leading provider of continuing professional education programs, as evidenced by our continued growth in that market and a high renewal rate. We believe that our reputation in the accounting/finance market will assist us as we expand our presence in the engineering, legal, financial services, information technology, corporate ethics and governance, general corporate markets and also into new markets.

We have been providing learning solutions for engineering professionals since 1997. Our legal and financial services divisions have been in business for 12 and 26 years, respectively.

Professional designations and strategic alliances. We believe that our relationships with some of the largest and most respected professional organizations and associations in the accounting and engineering professions give us instant credibility in the marketplace, provide us with a distribution channel for our products and are a source for programs and faculty.

Extensive library. Our content library consists of over 2,500 hours of proprietary education content including skills-based and update programs. We believe that our libraries are among the most extensive in the industry and help attract new subscribers. In the market for continuing legal education, we offer national courses; comparatively, those offered by the local bar associations usually deal with issues particular to that state. We also believe that our content and delivery technology is better than that of our competitors.

Discussion leaders with extensive experience in their practice areas. Loscalzo and EEI have over 30 years experience in live training and have a large base of discussion leaders with extensive experience in their respective fields with deep industry knowledge. They also have highly qualified and experienced program developers with extensive knowledge of the various topics in their respective course catalogs.

Experienced management. Our management team is comprised of experienced and successful accounting and legal professionals and sales and marketing and administrative executives. This has enabled us to develop high quality programs, enter into strategic relationships with the major professional organizations in the markets we serve, attract well-known personalities around whom we develop new programs, cut costs and make strategic acquisitions.

Value-added services. In addition to our extensive library of courseware, we also offer our customers a proprietary learning content management system, an administrative tool that enables organizations to monitor the use and efficacy of our programs.

Large and diversified customer base. We have over 3,000 corporate customers. Our customers include Fortune 500 companies, professional firms, small- and medium-sized companies and individuals. In the aggregate, we estimate that our corporate clients employ tens of thousands of accounting and finance professionals, representing a substantial universe of potential users. In addition, our corporate customers are a diversified group in terms of the industries and markets in which they operate. For example, our customers are some of the leading businesses in the following industries: accounting, banking and finance, law, insurance, technology, telecommunications, retail, aerospace, natural resources, construction and chemicals.

End-to-end service. All of our accounting/finance, legal, information technology and corporate training programs are produced, filmed, edited, duplicated and converted in-house. Our engineering and financial services programs are usually licensed from or developed in conjunction with an independent third party but are filmed, edited, duplicated

and/or converted into digital format in-house. Finally, we have a fulfillment center from which we ship our course materials, DVDs and hard copies, to our customers. We believe our vertically integrated operation results in a more efficient production process and

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enhances the quality of our products.

Online resource and content provider. We own and operate multiple Websites, including primary domains and subdomains at: www.smartpros.com, <http://education.smartpros.com>, <http://accounting.smartpros.com>, <http://corporate.smartpros.com>, <http://ir.smartpros.com>, <http://engineering.smartpros.com>, <http://greenengineering.smartpros.com>, www.engineering-ecampus.com, engineeringecampus.com, <http://marketing.smartpros.com>, www.workingvalues.com, www.skyemm.com, www.cognistar.com, www.mgi.org, www.pelicense.org, www.sageonlinelearning.com, www.financialcampus.com, www.watchit.com, www.financejobs.com, www.fmnonline.com, www.ireflecttraining.com, www.pro2net.com, www.accountingnet.com, www.smartprosinteractive.com, www.loscalzo.com and www.eeiconferences.com.

The SmartPros family of Websites has over 70,000 pages of proprietary content and links to professional organizations, associations and institutions, and is a marketing and distribution channel for our products. We believe that these Websites have become a destination for professionals based on the following data:

• As a result of maintaining the Websites, we have built a database with over 1.5 million profiled users.

• The Websites log over 1 million visits per month.

• The Websites deliver content to participants in over 120 countries.

• Through our Websites, we serve approximately one million ad banners and send over 200,000 opt-in emails per month.

Intellectual Property

We own a variety of intellectual property, including trademarks, trade names, copyrights, proprietary software, technical know-how and expertise, designs, process techniques and inventions. We believe that the trademarks and trade names we use to identify our products and services are material to our business. We own all of the following trademarks, trade names and/or service marks, which have either been federally registered or applications have been filed with the United States Patent and Trademark Office seeking federal registration: SMARTPROS, PRO2NET, LOSCALZO, KEEPSMART, WORKING VALUES, PROFESSIONAL EDUCATION CENTER (PEC), FINANCIAL MANAGEMENT NETWORK (FMN), CPA REPORT (CPAR), INTEGRITY TOOLKIT, INTEGRITY ALIGNMENT, COGNISTAR, SAGE, ACCOUNTINGNET, FINANCE JOBS, WATCHIT, SMARTIT, HAWTHORNE CENTER OF EXCELLENCE, iREFLECT, FINANCIALCAMPUS, FINANCEJOBS, SMARTPROS ECAMPUS, SMARTPROS ELP and SMARTPROS ELPLIVE.

Despite our efforts to protect our proprietary rights, unauthorized persons may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. Policing unauthorized use of our products is extremely difficult and the means we use to protect our proprietary rights may be inadequate. We believe that, ultimately, our success depends to a greater extent on the innovative skills, know-how, technical competence and abilities of our personnel.

All of our internally developed content is protected by copyright. While this may offer some protection against unauthorized persons copying the material, it does not prevent anyone from independently developing material on the same topic or in the same format. Regarding content created, owned or licensed by third parties, we enter into license agreements that permit us to market, use and distribute that content. These licenses may be exclusive or non-exclusive. We usually obtain a representation from the licensor that he or she has the right to license the content to us, that the license granted to us does not violate the terms of any other license, that the license granted does not violate any applicable law, rule or regulation or the proprietary rights of any third party, including, without limitation, patents, copyrights, trade secrets, or any license or sublicense, covenant or contract with any third party and that there is currently no actual or threatened suit by any such third party based upon an alleged violation by such licensor of any such proprietary rights. However, we do not make any independent investigation to verify if these representations are accurate. If the representation is not true, we may be enjoined from using that content further and may also be liable for damages to the true owner of the content or the exclusive licensee.

In connection with eCampus, our license agreement restricts use of the system and prohibits users from copying or sharing the system without our express written consent. eCampus incorporates products and systems and technology that we license and purchase from third parties. We cannot assure that we will be able to continue to license or support this technology on terms that we consider reasonable, if at all. If these licenses or maintenance agreements expire and

we cannot renew them, they are substantially modified or if they were terminated for any reason, we would have to purchase, license or internally develop comparable products and systems. Any one of these options may be expensive and/or time consuming, which could have a material adverse effect on our business and financial performance. We cannot prevent third parties from independently developing similar or competing systems, software and content that do not infringe on our rights. In addition, we cannot prevent third parties from asserting infringement claims against us relating to these systems and software. These claims, even if they are frivolous, could be expensive to defend and could divert management's attention from our operations. If we are ultimately found to be liable to third parties for infringing on their

proprietary rights, we may be required to pay damages, which may be significant, and to either pay royalties to the owner or develop non-infringing technology, the cost of which may be significant.

Government Regulation

Government regulation is important to our business. Every state sets its own continuing professional education requirements, in terms of the number of credits needed and the cycle in which those credits need to be earned, for its licensed professionals. In addition, specific content will only qualify for continuing professional education credit if it meets specific criteria, which varies from state to state. In the accounting/finance area, most states have adopted the NASBA standards to address the quality of course content. We are a certified NASBA sponsor, meaning that the courses we offer to the general public on a subscription basis qualify for continuing professional education credits in those states that have either adopted the NASBA standards or set their own standards similar to NASBA's, the District of Columbia and Puerto Rico. In the engineering area, there is less uniformity and each of our courses must be certified by the particular professional organization that oversees that particular specialty.

The market for CLE programs is regulated by state bar associations, state courts or other organizations in each state. The regulatory landscape is complex and varies from state to state.

The market for continuing education for the engineering professional is regulated by each state. The NCEES provides the guidelines and testing for engineers to obtain their professional licenses in all 50 states and various United States possessions.

In addition, various professionals and business entities in the insurance and security industries have federal and/or state licensing as well as continuing education requirements.

Employees

As of March 23, 2012, we had 82 employees of which 76 were full-time and seven were part-time. We have 32 employees based in our executive offices in Hawthorne, New York, and five employees based in our Westborough, Massachusetts, office. Skye employs nine people in their Bridgewater, New Jersey, office. Loscalzo has eight employees in its Shrewsbury, New Jersey, office. In addition, we have 28 employees that work out of their homes in various states. We believe that our relationship with all of our employees is generally good.

Item 1A. Risk Factors

CERTAIN RISK FACTORS THAT MAY AFFECT GROWTH AND PROFITABILITY

The following factors may affect our growth and profitability and should be considered by any prospective purchaser of our securities:

Investing in our common stock has a high degree of risk. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained in this annual report, including our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition and results of operations. As a result, the trading price of our common stock could decline and you may lose all or part of your investment.

Our operating results may fluctuate significantly, limiting the ability to evaluate historical financial results and increasing the likelihood that our results will fall below investors' expectations, which could cause the price of our shares to drop.

In 2011 our net revenues, operating income and net income fluctuated quarterly, primarily due to our Loscalzo subsidiary and EEI division, both of which are in the live training business, and we expect this trend to continue. EEI's revenue is primarily recognized in the second and fourth quarters of the year and Loscalzo has virtually no revenue in the first quarter. In both cases we expense payroll and other costs as incurred regardless of when the revenue is recognized. As a result, we incurred operating losses in the first and third quarters of 2011 and operating income in the second and fourth quarters. These quarterly fluctuations can also cause our stock price to fluctuate or decline.

Our operations may be adversely impacted by general economic conditions and other factors.

Our customer base consists primarily of corporations, professionals and professional services firms other businesses whose employees are required to take continuing education on a periodic basis and individual professionals. During economic downturns, some of our clients attempt to do without training as a cost-saving measure and others seek a

less costly provider of

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the type of training services we offer. They may also curtail the demand for customized products and the number of users may diminish as a result of reduced staff. In addition to budgetary constraints caused by economic conditions, attendance at live seminars can be affected by other factors such as health scares or travel restrictions.

Our subscription-based business depends on new business and customers renewals. Any decline in renewals or inability to obtain new subscriptions could affect future earnings.

A substantial portion of our net revenues is derived from subscriptions. Although, we have a high renewal rate, the loss of a substantial amount of renewals in any of our products, could have a material negative impact on our future results of operations. In addition, the inability to obtain new subscriptions could have a material negative impact on our business.

We may incur impairments to goodwill or long-lived assets.

We are required to test goodwill and our other intangible assets for impairment at least annually or if a triggering event occurs in accordance with the provisions of Topic ASC350 Goodwill and Other Intangible Assets. Such impairment could be caused by any number of factors, including significant negative industry trends, reduced estimates of future cash flows, disruptions to our business or lack of growth in the areas covered by these intangibles could result in a charge to earnings for impairment of any of our intangible assets or goodwill. Any such charge would have a material impact on our earnings and our stock price. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely, heavily, on projections of future operating results, which may or may not be achieved.

Implementation or change in existing accounting regulations could have an impact on our operating results.

While we believe that we are in compliance with existing accounting standards and regulations, adoption of new accounting standards that may be promulgated in the future by the applicable rule making bodies could have a material negative impact on our future results of operations and earnings. In addition, any change to management's judgment in the interpretation of certain current accounting standards including the capitalization of internally built software, could result in an adverse impact to our financial statements

The industry in which we operate is highly competitive and has relatively low barriers to entry. Increased competition could result in margin erosion and loss of market share and brand recognition.

Our competitors include professional firms, public and privately held companies, universities (traditional and online), other live training companies and professional and not-for-profit organizations and associations. Many of our existing and potential competitors have greater financial resources, larger market share, broader and more varied libraries, technology and delivery systems that are more flexible or cost-effective, stronger alliances, and/or lower cost structures than we do — which may enable them to establish a stronger competitive position than we have, in part through greater marketing opportunities. If we fail to address competitive developments quickly and effectively, we will not be able to grow.

Our growth strategy assumes that we will make targeted strategic acquisitions.

A key feature of our growth strategy is strategic acquisitions. We may not be able to maintain our current rate of growth. If we fail to execute on this strategy, our revenues may not increase and our ability to sustain profitability may be impaired.

An acquisition strategy is inherently risky. Some of the risks we may face in connection with acquisitions include:

- identifying appropriate targets in an efficient and timely fashion;
- negotiating terms that we believe are reasonable;
- failing to accurately assess the true cost of entering new markets or marketing new products;
- integrating the operations, technologies, products, personnel and customers of the acquired enterprise;
- maintaining our focus on our existing business;
- losing key employees; and
- reducing earnings because of disproportionately large depreciation and amortization deductions relating to the acquired assets.

We may not be able to identify any appropriate targets or acquire them on reasonable terms. Even if we make strategic acquisitions, we may not be able to integrate these businesses into our existing operations in a cost-effective and efficient manner. In addition, we may not achieve the benefits that we anticipated when we made these acquisitions,

causing a negative impact on our results of operations.

If we fail to keep up with changes affecting the markets that we serve, we will become less competitive, adversely affecting our financial performance.

In order to remain competitive and serve our customers effectively, we must respond on a timely and cost-efficient basis to changes in technology, industry standards and procedures and customer preferences. We need to continuously develop new course material that addresses new developments, laws, regulations, rules, standards, guidelines, releases and other pronouncements that are periodically issued by legislatures, government agencies, courts, professional associations and other regulatory bodies. In some cases these changes may be significant and the cost to comply with these changes may be substantial. We cannot assure that we will be able to adapt to any changes in the future or that we will have the financial resources to keep up with changes in the marketplace. Also, the cost of adapting our products and services may have a material and adverse effect on our operating results.

Our future growth and competitiveness depends on our ability to adapt to new technologies and changes to existing technologies and new applications to meet market demand.

One of our principal competitive advantages is our ability to deliver content in multiple formats. This flexibility has enabled us to keep pace with changes in technology and has contributed to our growth. Keeping pace with technological developments can be difficult and expensive, adversely impacting our operating results. However, our continued growth depends on our ability to anticipate and adapt to our customers' needs and preferences. If we fail to do that, the potential adverse impact could be significant to our business, operating results and financial condition. We cannot assure that we will be able to keep pace and adapt to changes in technology or customer preferences.

Our future success depends on retaining our existing key employees and hiring and assimilating new key employees. The loss of key employees or the inability to attract new key employees could limit our ability to execute our growth strategy, resulting in lost sales and a slower rate of growth.

Our success depends in part on our ability to retain our key employees including our chief executive officer, Allen S. Greene, and our president, Jack Fingerhut. Mr. Greene is an experienced senior corporate executive who has been instrumental in cutting costs, raising capital and negotiating and consummating the acquisitions that have helped us focus on our core competencies while at the same time expand into new markets. Mr. Fingerhut is one of our founders and is actively involved in sales and marketing and identifying acquisition targets. Mr. Fingerhut also has overall responsibility for the accounting products. He has extensive contacts within — and knowledge of — the accounting profession. Although we have employment agreements with both of these executives, each executive can terminate his agreement at any time. Also, we do not carry, nor do we anticipate obtaining, “key man” insurance on either Mr. Greene or Mr. Fingerhut. It would be difficult for us to replace either one of these individuals should they resign or become incapacitated. In addition, as we grow we may need to hire additional key personnel. We may not be able to identify and attract high quality employees or successfully assimilate new employees into our existing management structure. In addition, if any of our division heads were to leave, it could affect our revenues adversely.

Our sales cycle can be long and unpredictable, which could delay our growth and make it difficult for us to predict earnings. This could lead to stock price volatility.

Our sales cycle is unpredictable and depends on various factors including the type and size of the customer and the nature of the product being sold. Generally, sales to larger entities and sales of custom-designed products take longer to close. Most of our revenue is derived from corporate customers. Identifying the decision maker in these enterprises is often time consuming. Other variables in the purchasing process include the timing of disbursement of funds and the person-to-person sales contact process. Sales may take much longer than anticipated, may fall outside the approved budget cycle and, therefore, may not occur due to the loss of funding. This unpredictability has in the past caused, and may in the future cause, our net revenue and financial results to vary significantly from quarter to quarter. Our strategic relationships are usually short-term, non-exclusive arrangements and our strategic partners may provide the same or similar services to our competitors, diluting any competitive advantage we get from these relationships. We rely on our strategic partners to provide us with access to content and to sell our content. Our strategic partners may enter, and some have entered, into identical or similar relationships with our competitors, which could diminish the value of our products. Our relationships with our strategic partners are primarily covered by annual agreements that are subject to renewal. While we do not depend on any single strategic relationship for a significant amount of revenue or to develop content, if a number of these organizations were to terminate their relationships with us at the

same time, our ability to develop new content on a timely basis and our ability to distribute content would be impaired. We may not be able to maintain our existing relationships or enter into new strategic relationships.

We may be unable to protect our intellectual property adequately or cost effectively, which may cause us to lose market share or reduce our prices.

Our success depends in part on our brand identity and our ability to protect and preserve our proprietary rights. We cannot assure that we will be able to prevent third parties from using our intellectual property rights and technology without our authorization. We do not own any patents on our technology. Rather, to protect our intellectual property, we rely on trade secrets, common law trademark rights, trademark registrations, copyright notices, copyright registrations, as well as confidentiality, work for hire, development, assignment and license agreements with our employees, consultants, third-party developers, licensees and customers. However, these measures afford only limited protection and may be flawed or inadequate. Also, enforcing our intellectual property rights could be costly and time consuming and could distract management's attention from operating business matters.

If we were deemed an investment company under the Investment Company Act of 1940, applicable restrictions could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business. We are not an investment company under the Investment Company Act of 1940 and we intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the Investment Company Act of 1940, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and would harm our business and the price of our common stock.

Item 1B. Unresolved Staff Comments

We are a "smaller reporting company" as defined by Regulation S-K and, as such, we are not required to provide the information contained in this item.

Item 2. Description of Property

Our executive offices, production facility, technology center and fulfillment center are located on Route 9A in Hawthorne, New York, where we lease 17,850 square feet. The lease expires January 31, 2019. We lease 1,250 square feet in Westborough, Massachusetts, where SLE is based. The lease expires January 31, 2013. Skye leases 2,320 square feet in Bridgewater, New Jersey, at which the lease expires in January 2014. Finally, we lease 2,700 square feet in Shrewsbury, New Jersey, for our Loscalzo subsidiary, which expires on December 31, 2016.

Item 3. Legal Proceedings

At the present time, we are not a party to any material legal proceedings.

Item 4. Mine Safety Disclosure

None.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information

Our common stock is currently traded on the NASDAQ Capital Market under the symbol "SPRO." The following table sets forth, for the periods indicated, the high and low sales information for our Common Stock.

Price Range of Common Stock

| | Sales Information | |
|----------------|-------------------|--------|
| | High | Low |
| 2011 | | |
| First Quarter | \$2.50 | \$2.18 |
| Second Quarter | \$2.33 | \$2.03 |
| Third Quarter | \$2.37 | \$1.99 |
| Fourth Quarter | \$2.19 | \$1.72 |
| 2010 | | |
| First Quarter | \$3.43 | \$3.05 |
| Second Quarter | \$3.09 | \$2.39 |
| Third Quarter | \$2.83 | \$2.27 |
| Fourth Quarter | \$2.54 | \$2.27 |

At March 23, 2012, the closing sale price per share for our common stock, as reported on the NASDAQ Capital Market was \$2.11.

(b) Holders

As of the close of business March 23, 2012, the number of record holders of our common stock was 110.

(c) Dividends

The holders of our common stock are entitled to receive dividends as may be declared by the Board of Directors. During 2011, the Board of Directors approved four quarterly dividend payments of \$.0125 per common share, for a total of \$.05 per common share. Payment of future dividends will be within the discretion of our Board of Directors and will depend on, among other factors, our retained earnings, capital requirements, acquisitions, operating and financial condition. In March 2012, the Board of Directors approved a dividend payment of a \$.0125 per common share payable on April 4, 2012, to shareholders of record on March 22, 2012.

Company Purchases of its Equity Securities

On November 8, 2011, our Board of Directors approved an extension of the stock buy-back program under which \$750,000 of company funds is allocated to purchase shares of our common stock.

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 | | | | |