

Edgar Filing: TRIBEWORKS INC - Form 10KSB

TRIBEWORKS INC
Form 10KSB
April 15, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM N/A TO N/A

COMMISSION FILE NUMBER: 000-28675

TRIBEWORKS, INC.

(Name of Small Business Issuer in Its Charter)

DELAWARE

(State or Other Jurisdiction of Incorporation or Organization)

94-3370795

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

243 FRONT STREET

SAN FRANCISCO, CA 94111

(Address of principal executive offices) (zip code)

Issuer's Telephone Number, Including Area Code: (415) 674-5555

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

Securities registered under Section 12(g) of the Exchange Act:
COMMON STOCK

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO ___

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. []

State issuer's revenues for its most recent fiscal year. \$821,572

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 31, 2005 was approximately \$262,941 based upon the

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

OVERVIEW

We sell our software and generate revenues through two main distribution channels: the graphics software tools business and the enterprise application development business. Tools customers, usually graphics industry professionals, license our iShell(R) branded multimedia application authoring tools, iShell or iShell Mobile, by purchasing the software via our online store or via telephone with one of our sales representatives. Tools customers either buy our software with a permanent license or pay an annual subscription fee that includes a license to use our software and free software upgrades. Kinoma Media Album (KMA), our first consumer multimedia tool, is sold through three online stores: Kinoma.com, Handango.com and PalmGear.com.

We first introduced our multimedia authoring tool iShell(R) in January 1999, as a cross-platform software product to allow developers to create multimedia applications in a variety of categories, such as sales and business presentations, informational/catalog titles, training courses and modules for corporations and/or educational institutions, games, learning aids, enhanced CDs (audio CDs that also contain videos and other visual digital content), video yearbooks, and recruitment presentations.

Beginning in 2003, we partnered with Kinoma, Inc. ("Kinoma") to create new products for the mobile software market, specifically targeting Palm OS devices. Kinoma makes Kinoma Player, which is a high-resolution, interactive movie player for handhelds running the Palm OS. To date we have developed two products in partnership with Kinoma that create Kinoma Player content, iShell Mobile, an iShell-based application development tool, launched in October 2003, and Kinoma Media Album, a consumer multimedia management tool, launched in May of 2004. Kinoma receives a per unit royalty on sales of iShell Mobile and Kinoma Media Album. In addition to building these two products together, we have utilized Kinoma as a subcontractor on Enterprise projects.

In our Enterprise business, most of our customers are large corporations that require development of custom multimedia tools or complex multimedia applications. Enterprise customers usually pay for consulting services performed by Tribeworks' employees and subcontractors. Certain Enterprise customers also license our software, usually for a fixed fee or on a per unit basis. As evidenced by results for this quarter, we generally anticipate Enterprise business growth, particularly Enterprise consulting revenues, to be less predictable and "bumpier" than our Tools business revenues in the foreseeable future, and this could impact whether or not we will be profitable on a quarter-to-quarter basis. The primary reason is that our Enterprise business has a smaller number of customers. The addition of new mobile Enterprise solutions has expanded the potential customer base and could decrease volatility going forward. We expect to continue to underwrite the cost of software research and development with money received from Enterprise customers.

We incorporated in California in August 1998 as California Tribeworks. On November 2, 1999, we entered into a transaction with Pan World Corporation, a publicly traded Nevada corporation (Pan World), whereby Pan World agreed to provide financing in connection with the merger of a newly formed subsidiary of Pan World into California Tribeworks (the Recapitalization). Prior to the

Edgar Filing: TRIBEWORKS INC - Form 10KSB

Recapitalization, Pan World never had any material operations. As a result of the Recapitalization, shareholders of California Tribeworks exchanged all their shares in California Tribeworks for Pan World common stock. Subsequent to the Recapitalization, we reincorporated in Delaware as Tribeworks, Inc. We opened a wholly owned subsidiary in Japan (Tribeworks Japan) in August 2000, which engaged in sales and professional services activities primarily in our Enterprise application development business, until it was closed during the third quarter of 2004.

We are currently a fully reporting registered company, and our stock is traded on the OTC Bulletin Board under the symbol TRBW.

PRODUCTS AND SERVICES

TOOLS BUSINESS

Our Tools business is focused on direct sales of licenses and bundled support services to our proprietary graphical software application, iShell(R), and complementary products such as software plug-ins and product documentation. For the year ended December 31, 2004, the Tools business accounted for 37% of total revenues.

3

iShell is a graphical software application that allows creation of interactive rich-media applications. Applications can be deployed via the Internet, a CD-ROM, a kiosk (interactive retail display), or a combination thereof. iShell offers the ability to reuse common interactive elements in an expandable, drag-and-drop, object-oriented environment that can save significant production time for developers. iShell has been released for Windows and Macintosh operating systems.

iShell Mobile is an object oriented programming tool used to develop applications for the Palm OS. iShell Mobile allows developers to rapidly design interactive multimedia rich applications including business presentations, informational/catalog titles, training courses and modules for corporations and/or educational institutions. iShell Mobile extends the benefits of iShell to software application developers working in the Palm OS handheld market.

Kinoma Media Album (KMA), our first consumer multimedia tool, allows customers to build interactive media albums for viewing on Palm OS devices. KMA is sold through three online stores: Kinoma.com, Handango.com and PalmGear.com.

We attract new iShell and iShell Mobile customers primarily through our website, www.tribeworks.com, where iShell and iShell Mobile can be downloaded for trial use. Potential Tools customers register on our website and provide contact information which we use to attempt to convert them to paying customers. As of December 31, 2004, more than 64,000 users had registered at www.tribeworks.com. We attract new KMA customers via our online store partners.

iShell customers either buy our software with a permanent license or pay an annual subscription fee that includes a license to use our software and customer support services. iShell Mobile and Kinoma Media Album customers buy our software with a permanent license. No subscriptions are currently available for iShell Mobile or Kinoma Media Album.

ENTERPRISE BUSINESS

Edgar Filing: TRIBEWORKS INC - Form 10KSB

Enterprise customers are large companies and other entities that require development of customized multimedia authoring tools or multimedia applications or presentations. For the year ended December 31, 2004, the Enterprise business accounted for 63% of our total revenues.

Enterprise customers pay for professional services, which we provide for a fixed fee or on a daily rate basis via our employees and outside consultants. Enterprise customers also license customized versions of our software for a fixed fee or on a per unit basis. We try to structure our contracts so that we own some of the work that we create during Enterprise engagements, which helps to underwrite our research and development costs.

During 2004, one customer accounted for 58% of our Enterprise revenue. Our relationship with this customer is described below:

- Pioneer Corporation, a consumer electronics company with more than 30,000 employees and more than \$5 billion (USD) in sales, has been a customer since 2000. Under the contracts that were active during 2004, we performed software engineering services for Pioneer for the development of software products that allow users to create and manage multimedia content for next generation digital signs.

We do not have a dedicated sales force for our Enterprise business, as our officers serve the role of salesmen and account managers for prospective and current Enterprise customers. During 2004, the primary thrust of our Enterprise sales efforts was to secure new relationships and contracts with mobile device manufacturers and carriers, which we view as our primary targets for future Enterprise revenue growth.

PRODUCT DEVELOPMENT

Our products and services enable our customers to save time and cost building and deploying rich-media applications. We believe that our future success depends on our ability to enhance existing products and develop and introduce new products on a timely basis. We maintain an internal staff to develop the software that we market and sell to customers. A significant portion of our software is created as a result of work that we perform for our Enterprise customers. To date, we have structured our contracts with Enterprise customers so that we retain most intellectual property rights in the software that we develop for them. Due to the changing technological environment for computer systems and other electronic devices, we continue to adapt our products to new hardware and software platforms and to embrace emerging technology standards. For the years ended December 31, 2004 and 2003, product development expenditures were \$94,387 and \$142,692, respectively.

4

TECHNICAL SUPPORT AND EDUCATION

We provide technical support to purchasers of iShell subscriptions, which include rapid response to support questions via discussion lists. We are able to limit expenditures for customer support because subscribers are able to answer most questions for one another through discussion lists.

We also hold periodic training sessions in San Francisco and in other

Edgar Filing: TRIBEWORKS INC - Form 10KSB

locations, where we teach new and existing users about our products and latest product developments.

COMPETITION

We compete in markets that are new, intensely competitive, highly fragmented, and rapidly changing. We have experienced increased competition from current and potential competitors, many of which are larger and more profitable and as a result have greater technical, marketing, and other resources. We expect the competition will continue, and we will compete with the major graphics and multimedia software tools companies, as well as service companies building custom multimedia applications for corporate clients. We believe that the primary competitive factors in providing multimedia software applications to businesses and educational institutions are ease of use, price, quality of service, availability of customer support, reliability, technical expertise, and experience. Our success will depend on our ability to provide quality development tools and value-added services, including:

- Augmenting the ability of the software application to function on different hardware platforms and operating systems, such as Windows and Macintosh environments;
- Delivery of our software to new devices such as mobile phones and personal digital assistants (PDA's);
- Providing flexibility in the degree and level of customization of software applications;
- Increasing product functionality and system performance;
- Improving quality of product;
- Reducing total cost of product development;
- Improving sales and distribution efficiency;
- Improving brand name recognition; and
- Providing high quality professional support services.

We experience competition in each area of our business. Companies in the graphics software tools area include Macromedia, Adobe Systems, and Autodesk. These companies market a variety of products addressing our target markets, including software tools for authoring and delivering interactive information targeted to computer-based training specialists and educators, as well as multimedia professionals. They also offer graphics and publishing products for online publishing as well as print-based publishing. In addition, competitors also provide extensive product training to support their products.

Most of our current and potential competitors in the Internet services and graphics and multimedia industries have longer operating histories, greater name recognition, and larger existing customer bases than we have. These competitors may be able to respond faster to new or emerging technologies and changes in customer requirements. Accordingly, there can be no assurance that we will be able to compete successfully.

GOVERNMENT REGULATION

Laws relating to the Internet are constantly changing. Federal, state, local and foreign governments are considering a number of new legislative and regulatory proposals relating to Internet commerce. As a result, a number of laws or regulations may be adopted regarding Internet user privacy, security, taxation, pricing, quality of products and services, and intellectual property ownership, which may also be applicable to us. How existing laws will be applied to the Internet, in areas such as property ownership, copyrights, trademarks, trade secrets, and obscene or indecent communications, is uncertain.

PROPRIETARY RIGHTS

We rely on a combination of copyright laws, trademark laws, contract laws,

Edgar Filing: TRIBEWORKS INC - Form 10KSB

and other intellectual property protection methods to protect our technology, including our logo and the names "Tribeworks" and "iShell" in the United States and other countries. We believe that our trademarks and the use of material in our website are protected under current provisions of copyright law, although legal rights to Internet content and commerce are not clearly settled by law. We were granted trademarks to "Tribeworks", the Tribeworks faces logo, and "iShell" in 2000.

5

In November 1999, we entered into a software agreement (Keepsake Software Agreement) with Keepsake SPRL (Keepsake) and Gilbert Amar (one of our co-founders) pursuant to which we acquired the right, title, and interest to iShell, our lead product.

In April 2001, we jointly filed a United States patent application with Pioneer Electric Corporation in the area of interactive display technology.

EMPLOYEES

As of December 31, 2004, we had a total of 5 employees and 2 consultants working on a full-time basis.

ITEM 2. DESCRIPTION OF PROPERTY.

We lease approximately 900 square feet in San Francisco, California for our sales, engineering, and administrative offices. The current annual rent for the San Francisco facility is approximately \$23,400 and the lease expires in December 2006. The leased facility is in satisfactory condition for its purpose.

ITEM 3. LEGAL PROCEEDINGS.

We are not aware of any legal proceedings (either presently engaged in or contemplated) by any government authority or other party involving our Company, our properties or our products.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2004.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Tribeworks, Inc. common stock is traded on the OTC bulletin board under the symbol TRBW. The following table sets forth the range of closing high and low bid quotes for each period indicated as reported by stockwatch.com and reflects all stock splits effected by the Company:

	2004		2003	
	HIGH	LOW	HIGH	LOW
First quarter	\$0.300	\$0.120	\$0.240	\$0.080

Edgar Filing: TRIBEWORKS INC - Form 10KSB

Second quarter	\$0.300	\$0.120	\$0.320	\$0.080
Third quarter	\$0.200	\$0.100	\$0.280	\$0.060
Fourth quarter	\$0.150	\$0.100	\$1.400	\$0.120

The above quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

We had approximately 304 stockholders of record as of March 31, 2005. We have not declared or paid any cash dividends on our common stock and presently intend to retain our future earnings, if any, to fund the development and growth of our business and, therefore, do not anticipate paying any cash dividends in the foreseeable future.

We established our 1999 Stock Option Plan (the "1999 Plan") on November 2, 1999 with 400,000 shares approved for issuance. We established our 2001 Stock Plan ("2001 Plan") on August 16, 2001 and reserved 750,000 shares. We established our 2004 Employee Stock Incentive Plan ("2004 Plan") on March 24, 2004 and reserved the total number of shares equal to 25% of our outstanding common stock, as determined from time to time, an amount which equaled 1,177,164 shares at December 31, 2004. The purpose of the 1999 Plan is to grant stock and options to purchase our common stock to our employees and key consultants, the purpose of the 2001 Plan is to grant stock and warrants to purchase our common stock to employees and key consultants for outstanding cash payments due, and the purpose of the 2004 Plan is to grant stock options to purchase our common stock, restricted stock, and stock bonuses to employees, officers and key consultants. The total amount of shares subject to the three Plans as of December 31, 2004 is 2,327,164 shares. Included in the Equity Compensation Plan line items listed below, but outside of the scope of the 1999 Plan, 2001 Plan, and 2004 Plan, is a warrant to purchase 45,000 shares of our common stock issued to an officer and director.

6

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining for future exercise under equity compensation plans
Equity Compensation Plans approved by security holders.	248,500	\$1.42	1,282
Equity Compensation Plans not approved by security holders.	45,000	\$1.50	381
TOTAL	293,500	\$1.43	1,664

Edgar Filing: TRIBEWORKS INC - Form 10KSB

We made no sales of our unregistered common stock during the quarter ended December 31, 2004.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD LOOKING STATEMENTS

The following discussion contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are subject to risks and uncertainties. These forward-looking statements are based on our management's beliefs as well as assumptions and information currently available to us. When used in this report, the words "believe," "expect," "anticipate," "estimate" and similar expressions are intended to identify forward-looking statements. There are several important factors that could cause actual results to differ materially from historical results and percentages and results anticipated by the forward-looking statements, such as, but not limited to:

- o whether or not our products are accepted by the marketplace and the pace of any such acceptance,
- o our ability to continue to grow our Tools and Enterprise businesses,
- o improvements in the technologies of our competitors,
- o changing economic conditions, and
- o other factors, some of which will be outside of our control.

We have sought to identify most risks to our business but cannot predict whether or to what extent any of such risks may be realized. There can be no assurance that we have identified all possible risks that might arise. Investors should carefully consider all such risks before making an investment decision with respect to our common stock. We caution you not to place undue reliance on any forward-looking statements, all of which speak only as of the date of this report. You should refer to and carefully review the information in future documents we file with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

We witnessed an unprofitable year in 2004, with net loss of \$194,005. This was our first unprofitable year since recording two consecutive profitable years in 2003 and 2002. Our financial success relies on steady or growing revenues in our Tools business, and the attainment of sustainable key contracts in our Enterprise business. Both the Tools and the Enterprise businesses witnessed significant declines during 2004, which had a negative impact on our profitability. In addition, having significantly reduced our cost structure during 2002 and 2003, during 2004 we began to accrue salaries for our key officers and employees, who were being paid under-market wages. These salary accruals also had a negative impact on our profitability. The future success of our business is not assured, and our financial condition has weakened. Based on the uncertainties in our business, and in light of our financial condition, on March 30, 2005, we announced a plan of reorganization, which is described in NOTE L - SUBSEQUENT EVENTS to our financial statements.

We have not yet filed our 2003 tax returns, but plan to file them during 2005.

Edgar Filing: TRIBEWORKS INC - Form 10KSB

REVENUES

Total revenues were \$821,572 for the year ended December 31, 2004, a decrease of 31% compared to total revenues of \$1,194,792 for the year ended December 31, 2003. The Tools Business, which primarily includes sales of commercial or educational use of our iShell software, sales of books and third party plug-ins, and a small amount of sales of iShell Mobile and Kinoma Media Album, decreased by 17% to \$300,799 for 2004, compared to \$363,972 for 2003. The decrease in Tools revenues was due primarily to a 20% decrease in iShell revenues, which we believe is the result of a shrinking marketplace for interactive CD-ROM authoring tools. The decrease in iShell sales was partially offset by the introduction during 2004 of our consumer tool Kinoma Media Album. The Enterprise business decreased in 2004 by 37% to \$520,773, compared with \$830,820 for 2003. Enterprise revenues for 2004 consisted of \$514,687 in professional services revenues and \$6,086 in licensing revenues, compared with \$757,720 in professional services revenues and \$73,099 in licensing revenues for 2003. The decrease in Enterprise revenues is due primarily to a decrease in revenues associated with our ongoing relationship with Pioneer Corporation. This decrease was partially offset by an increase in revenues associated with our professional services related to building software applications and presentations for mobile devices. International revenues, which consist of sales to foreign customers, represented 53% of revenues for 2004, compared to 63% of revenues for 2003. Revenues from Japanese customers decreased to 37% of total revenues for 2004, from 52% for 2003. The decrease in Japanese revenues in the Enterprise business was based on the reduction of revenues associated with our Pioneer work.

COST OF SALES

Cost of sales includes royalties paid to third parties for licensed technology, costs associated with order fulfillment, credit card fees, web hosting fees, and costs associated with consulting services, including salaries, subcontractor fees, and out-of-pocket expenses. Cost of sales was \$328,862 for the year ended December 31, 2004, down from \$406,926 for the year ended December 31, 2003. The decrease in cost of sales was due to a decrease in sales volume. Gross margins decreased on a percentage basis to 60% for 2004 from 66% for 2003, primarily to lower gross margins associated with our Pioneer work.

OPERATING EXPENSES

Product support expenses consist mainly of compensation, benefits and consulting fees paid to product support personnel. Product support expenses were \$40,377 and \$50,987 for the years ended December 31, 2004 and 2003, respectively. As a percentage of Tools sales, product support expenses were 13% and 14% for 2004 and 2003, respectively.

Product development expenses consist primarily of compensation and benefits to support product development. Product development expenses were \$94,387 and \$142,692 for the years ended December 31, 2004 and 2003, respectively. This decrease primarily reflects higher expenses in 2003 due to the development iShell Mobile and Kinoma Media Album during 2003.

Sales and marketing expenses consist primarily of compensation and benefits and other public relations and marketing costs. Sales and marketing expenses were \$200,488 and \$232,002 for the years ended December 31, 2004 and 2003, respectively.

General and administrative expenses consist primarily of compensation and

Edgar Filing: TRIBEWORKS INC - Form 10KSB

benefits, fees for professional services, and overhead. General and administrative expenses were \$350,671 and \$321,751 for the years ended December 31, 2004 and 2003, respectively. This increase was due primarily to an increase in expenses associated with new compensation arrangements with our principal executives, as described in NOTE J - RELATED PARTY TRANSACTIONS to the financial statements. This increase was partially offset by lower overhead expenses during 2004.

OTHER INCOME (EXPENSE)

Other expense was \$792 for the year ended December 31, 2004, consisting of \$792 of interest expense, compared to Other income of \$384 for the year ended December 31, 2003, consisting of \$8,110 of other income, and \$7,726 of interest expense.

PROVISION FOR INCOME TAXES

We recorded no income tax provision for the years ended December 31, 2004 and 2003.

8

NET INCOME

Net loss was \$194,005 for the year ended December 31, 2004, compared to net income of \$40,818 for the year ended December 31, 2003.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2004, we had cash of \$43,729 compared to \$39,772 at December 31, 2003.

Since inception, we have financed our operations through issuance of stock and revenues derived from our Tools and Enterprise businesses. Through December 31, 2004, we had raised \$2,672,656 from the sale of stock. At December 31, 2004, our principal source of liquidity was \$43,729 of cash. We were unprofitable in 2004. Given our financial condition, on March 30, 2005, we announced a plan of reorganization that is described in NOTE L - SUBSEQUENT EVENTS to our financial statements.

For the years ended December 31, 2004 and 2003, cash provided by operating activities was \$3,957 in 2004 and cash used by operating activities was \$59,184 in 2003.

Cash used in investing activities for the year ended December 31, 2004 and 2003 was \$0 and \$3,967, respectively. We made no equipment purchases in 2004.

Cash used by financing activities for the year ended December 31, 2004 and 2003 was \$00 and \$40,500, respectively.

Our capital requirements depend on numerous factors, including market acceptance of our products, resources we devote to developing, marketing, selling and supporting our products, timing of our operations, extent and timing of investments, potential acquisition of other concerns, and other factors. We expect to devote substantial capital resources to hire and expand our sales, support, marketing and product development organizations, to expand marketing programs, and for other general corporate activities.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are described in NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of the Notes to our financial statements. Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate the estimates that we have made. These estimates have been based upon historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Allowance for Doubtful Accounts. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, which is included in bad debt expense. Management determines the adequacy of this allowance by regularly reviewing our accounts receivable aging and evaluating individual customer receivables, considering customers' financial condition, credit history and current economic conditions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Percentage-of-Completion Accounting/Revenue Recognition. Revenue is generally recognized when all contractual or transfer obligations have been satisfied and collection of the resulting receivable is probable. Revenues from membership subscriptions are recognized proportionally over the membership period, usually one year. Revenues and estimated profits on custom development services are generally recognized under the percentage-of-completion method of accounting using an input measurement methodology; profit estimates are revised periodically based on changes in facts; any losses on contracts are recognized immediately. Revenue from the sale of licenses are recognized when all the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. If all aspects but the last have been met or if post contract customer support could be material, revenue is recognized as payments from customers are received.

Income Taxes. We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Significant judgment is required in determining our provision for income taxes. We assess the likelihood that our deferred tax asset will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we establish a valuation allowance. We consider future taxable income projections, historical results and ongoing tax planning strategies in assessing the recoverability of deferred tax assets. However, adjustments could be required in the future if we determine that the amount to be realized is less or greater than the amount that we recorded. Such adjustments, if any, could have a material impact on our results of our operations.

Edgar Filing: TRIBEWORKS INC - Form 10KSB

RISK FACTORS

WE HAVE A LIMITED OPERATING HISTORY AND THERE IS A GREAT DEGREE OF UNCERTAINTY AS TO OUR FUTURE RESULTS. WE HAVE EXPERIENCED MINIMAL PROFITS RECENTLY AND MAY NEVER ACHIEVE SUSTAINED PROFITABILITY.

We have a limited operating history upon which an evaluation of our business and prospects can be based. Our prospects must be evaluated with a view to the risks encountered by a company in an early stage of development, particularly in light of the uncertainties relating to the new and evolving markets in which we intend to operate and in light of the uncertainty as to market acceptance of our business model. We will be incurring costs in marketing our products and services to customers and in building and developing an administrative organization. To the extent that revenues do not match these expenses, our business, results of operations, and financial conditions will be materially adversely affected. There can be no assurance that we will be able to generate sufficient revenues from the Tools business or Enterprise business to maintain profitability on a quarterly or annual basis in the future. We may not be able to sustain or increase profitability on a quarterly basis or achieve profitability on an annual basis.

WE EXPECT HIGH VARIABILITY AND UNCERTAINTY AS TO OUR FUTURE OPERATIONS AND FINANCIAL RESULTS.

Failure to continue to operate profitably on an annual basis may adversely affect the market price of our common stock and our ability to raise capital and continue operations. We expect high variability and uncertainty as to our future operations and financial results. As we continue to develop and market our business, our quarterly operating results may fluctuate as a result of a variety of factors. Many of these factors are outside our control, including demand for the development of rich-media applications, the introduction of new products and services by our competitors, price competition or pricing changes in the industry, technical difficulties or system downtime, general economic conditions, and economic conditions specific to the Internet and related media. Due to these factors, among others, our operating results may fall below our expectations and the expectations of investors.

OUR PRODUCTS AND SERVICES MAY NOT BE ACCEPTED BY THE INDUSTRIES THAT USE RICH-MEDIA APPLICATIONS.

Our future success depends on our ability to create and deliver sophisticated rich-media tools and applications. If our products and related services are not widely accepted, our ability to make sales in the Tools business and Enterprise business will be hampered. There can be no assurance that our products and tools will be attractive to a sufficient number of users to generate significant revenues. If we are unable to evolve our present products and to develop new products that allow us to attract, retain, and expand a loyal membership base, our business, results of operations, and financial condition will be materially adversely affected.

THE RICH-MEDIA MARKET IS INTENSELY COMPETITIVE. WE CANNOT ASSURE YOU THAT WE WILL BE ABLE TO ACHIEVE MARKET ACCEPTANCE.

The rich-media market is intensely competitive. We expect the competition to increase as new competitors enter the market. Many of our competitors may have greater technical, marketing, and other resources. We believe the primary competitive factors in providing rich-media application services and tools to development organizations and large corporations are value-added services, ease of use, price, quality of service, availability of customer support, reliability, technical expertise, and experience. To the extent that we are not able to attract sources of revenues from the Tools business and the Enterprise

Edgar Filing: TRIBEWORKS INC - Form 10KSB

business, our business, results of operations, and financial condition will be materially adversely affected.

10

A number of companies currently offer services or products that compete directly or indirectly with our current products and service offerings. These companies include Macromedia and Adobe Systems. These companies market a variety of products addressing our target markets, including software tools for authoring multimedia content. If we are unable to introduce competitive products with competitive training and consulting services, our business, results of operations, and financial condition will be materially adversely affected.

Most of our current and potential significant competitors in the Internet services, graphics, and multimedia industries have longer operating histories, greater name recognition, and larger existing customer bases than us. These competitors may be able to respond faster to new or emerging technologies and changes in customer requirements. Because of their greater resources, they will be able to make more responsive changes to market conditions. Accordingly, there can be no assurance that we will be able to compete successfully in these industries.

OUR SOFTWARE DEPENDS ON APPLE'S QUICKTIME TECHNOLOGY TO FUNCTION PROPERLY. WE CANNOT ASSURE YOU THAT APPLE WILL CONTINUE TO DEVELOP THE QUICKTIME TECHNOLOGY OR DISTRIBUTE IT FREE OF CHARGE, OR WILL NOT DEVELOP SOFTWARE APPLICATIONS WHICH COMPETE DIRECTLY WITH TRIBEWORKS iSHELL PRODUCT.

Our iShell product line currently requires installation of Apple Computer's QuickTime software in order to function properly on both Windows and Macintosh systems. We have no control over whether, and cannot assure that, Apple's QuickTime will maintain or enlarge its current market share against competitive technologies. In addition, although Apple's QuickTime technology has been under development for more than nine years, we cannot assure that Apple will continue to develop the technology or distribute it free of charge to consumers. Apple may also substantially alter its business or licensing strategy with QuickTime in a way that could adversely impact our business, resulting in increases in our development costs. In addition, Apple has increased its graphic software development efforts and may decide to compete directly in the multimedia authoring tool market.

WE CANNOT BE CERTAIN THAT WE WILL BE ABLE TO ESTABLISH AND MAINTAIN THE TRIBEWORKS BRAND, WHICH IS CRITICAL TO OUR EFFORTS TO ATTRACT AND EXPAND OUR MARKET.

We believe that establishing and maintaining the Tribeworks brand is a critical aspect of our efforts to attract and expand our Internet audience. The importance of brand recognition will increase due to the growing number of Internet sites and the relative lack of significant barriers to entry in providing Internet services, tools, products, and content. If we fail to promote and maintain our brand, or if we incur excessive expenses in an attempt to promote and maintain our brand, our business, financial condition and operating results will be materially adversely affected.

OUR SUCCESS DEPENDS ON OUR ABILITY TO ADDRESS POTENTIAL MARKET OPPORTUNITIES WHILE MANAGING OUR EXPENSES. IF WE ARE UNABLE TO MANAGE OUR EXPENSES, OUR BUSINESS AND FINANCIAL CONDITIONS WILL BE MATERIALLY ADVERSELY AFFECTED.

Edgar Filing: TRIBEWORKS INC - Form 10KSB

Our success depends upon our ability to address market opportunities while managing our expenses to match our ability to finance our operations. Our need to manage expenses will place a strain on our management and operational resources. If we are unable to manage our expenses effectively, our business, financial condition, and operating results will be materially adversely affected. We have experienced an unprofitable year during 2004, and we expect increased expenses in future quarters as we begin to comply with the requirements of the Sarbanes-Oxley Act of 2002.

OUR SUCCESS DEPENDS ON OUR KEY PERSONNEL AND THE CONSULTING SERVICES PROVIDED BY KEEPSAKE. WE MAY BE UNABLE TO ATTRACT AND RETAIN QUALIFIED EMPLOYEES AND MAY NOT BE ABLE TO RETAIN THE SERVICES OF KEEPSAKE AFTER THE EXPIRATION OF THE KEEPSAKE SOFTWARE AGREEMENT.

Our performance and success depend substantially on the services of Duncan Kennedy, President of our operating subsidiary Tribeworks Development Corporation, Robert Davidorf, our Chief Financial Officer, and J. Glenn Pogue, our CEO, as well as on our ability to recruit, retain and motivate our other officers and key employees.

We do not have employment contracts with key officers or employees, and their relationships with us are terminable at-will. Our success also depends on our ability to attract and retain additional qualified employees in the San Francisco Bay Area. Competition for qualified personnel in the San Francisco Bay Area and Tokyo is intense and there are a limited number of persons with knowledge of and experience in our field of business. There can be no assurance that we will be able to attract and retain key personnel. The loss of one or

11

more key employees or of our key service providers could have a material adverse effect on the Company.

OUR SUCCESS DEPENDS ON OUR ABILITY TO DEVELOP SERVICES THAT MEET OUR CUSTOMERS' REQUIREMENTS. WE MAY NOT BE ABLE TO MEET THOSE REQUIREMENTS IF WE ARE UNABLE TO KEEP PACE WITH TECHNOLOGY TRENDS AND THE EVOLVING RICH-MEDIA INDUSTRY STANDARDS.

Our success depends on our ability to develop and provide new services that meet our customers' changing requirements. The Internet is characterized by rapidly changing technology, evolving industry standards, changes in customer needs and frequent new service and product innovations. Our success will depend, in part, on our ability to assess and effectively use unproven technologies and unproven standards. We must evaluate and utilize technical standards developed by industry committees. We must also evaluate and use proprietary multimedia development software provided by companies such as Apple, Microsoft, and RealNetworks to continue to develop our technological expertise, enhance our current services, develop new services that meet changing customer needs, and influence and respond to emerging industry standards and other technological changes on a timely and cost-effective basis. If we fail to adequately assess or utilize these standards or proprietary technologies at the appropriate time in the marketplace, the competitive advantages of our products and services and our business, financial condition, and operating results could be materially adversely affected.

INCREASING GOVERNMENTAL REGULATION ON ELECTRONIC COMMERCE AND LEGAL UNCERTAINTIES COULD LIMIT OUR GROWTH.

Edgar Filing: TRIBEWORKS INC - Form 10KSB

The adoption of new laws or the adaptation of existing laws to the Internet may decrease the growth in the use of the Internet, which could in turn decrease the demand for our services, increase our cost of doing business or otherwise harm our business. Federal, state, local and foreign governments are considering a number of legislative and regulatory proposals relating to Internet commerce. As a result, a number of laws or regulations may be adopted regarding Internet user privacy, security, taxation, pricing, quality of products and services, and intellectual property ownership, which may also be applicable to us. How existing laws will be applied to the Internet, in areas such as property ownership, copyrights, trademarks, trade secrets, and obscene or indecent communications, is uncertain.

CAPACITY CONSTRAINTS AND SYSTEM DISRUPTIONS COULD SUBSTANTIALLY REDUCE THE PRODUCTS WE SELL AND UNDERMINE OUR REPUTATION FOR RELIABILITY AMONG OUR CUSTOMERS AND POTENTIAL CUSTOMERS.

The satisfactory performance, reliability and availability of our Internet sites and our network infrastructure are critical to attracting Internet users and maintaining relationships with subscribing customers. System interruptions that result in the unavailability of our Internet sites and slower response times for users could reduce the number of products and multi-media services we deliver and reduce the attractiveness of our services to Members and subscribers. Any disruption of our services would materially adversely affect our business, financial condition and results of operations.

OUR INTERNET OPERATIONS ARE LOCATED IN A SINGLE FACILITY, WHICH IS LOCATED IN THE SAN FRANCISCO BAY AREA IN CALIFORNIA. A NATURAL DISASTER IS POSSIBLE AND COULD RESULT IN PROLONGED INTERRUPTION OF OUR BUSINESS.

Our Internet operations are located in the San Francisco Bay Area. This area is seismically active. With our operations centralized in a single facility, a natural disaster, such as an earthquake, fire, or flood, could substantially disrupt our manufacturing operations or destroy our facilities. This could cause delays and cause us to incur additional expenses and adversely affect our reputation with our customers. In addition, since the real estate market in the San Francisco Bay Area is extremely competitive and is likely to remain competitive, an alternative facility may not be available on commercially reasonable terms if we suffer a catastrophic loss from a natural disaster.

WE ARE SUSCEPTIBLE TO PARTIES WHO MAY COMPROMISE OUR SECURITY MEASURES, WHICH COULD CAUSE US TO EXPEND CAPITAL AND MATERIALLY ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Hackers may be able to circumvent our security measures and could misappropriate proprietary information or cause interruptions in our Internet operations. In the past, computer viruses or software programs that disable or impair computers have been distributed and have rapidly spread over the Internet. Computer viruses could be introduced into our systems or those of our users, which could disrupt our network or make our systems inaccessible to users. Any of these events could damage our reputation among our customers and

potential customers and substantially harm our business. We may be required to expend capital and resources to protect against the threat of security breaches or to alleviate problems caused by these breaches. Consumer concern over

Edgar Filing: TRIBEWORKS INC - Form 10KSB

Internet security has been, and could continue to be, a barrier to commercial activities requiring consumers to send their credit card information over the Internet. Computer viruses, break-ins, or other security problems could lead to misappropriation of proprietary information and interruptions, delays or cessation in service to our customers. Moreover, until more comprehensive security technologies are developed, the security and privacy concerns of existing and potential customers may inhibit the growth of the Internet as a merchandising medium. Further, our business is subject to the effects of war and acts of terrorism.

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, OR WE MAY INFRINGE THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS, WHICH MAY RESULT IN LAWSUITS AND PREVENT US FROM SELLING OUR PRODUCTS.

We rely on copyright, patent, and trade secret laws to protect our trademarks, content, and proprietary technologies and information. However, there can be no assurance that such laws will provide sufficient protection to us, other parties will not develop technologies that are similar or superior to ours, or, given the availability of our products' source-code, other parties will not copy or otherwise obtain and use our content or technologies without authorization.

There are no pending lawsuits against us regarding infringement of any existing patents or other intellectual property rights or any material notices that we are infringing the intellectual property rights of others. However, there can be no assurance that third parties will not assert infringement claims in the future. If any claims are asserted and determined to be valid, there can be no assurance that we will be able to obtain licenses of the intellectual property rights in question or obtain licenses on commercially reasonable terms. Our involvement in any patent dispute or other intellectual property dispute or action to protect proprietary rights may have a material adverse effect on our business, operating results, and financial condition. Adverse determinations in any litigation may subject us to liabilities, require us to seek licenses from third parties, and prevent us from marketing and selling our products. Any of these situations can have a material adverse effect on our business, operating results, and financial condition.

Effective trademark, copyright, and other intellectual property protection may not be available in every country in which our technology is distributed or made available through the Internet. There can be no assurance that our means of protecting our proprietary rights in the United States or abroad will be adequate or that competitors will not independently develop similar technology.

OUR FUTURE SUCCESS DEPENDS ON OUR ABILITY TO ATTRACT CUSTOMERS FROM OUTSIDE THE UNITED STATES. JURISDICTIONS OUTSIDE THE UNITED STATES MAY IMPOSE TAX AND REGULATORY BURDENS ON OUR BUSINESS, WHICH COULD HAVE A MATERIAL ADVERSE AFFECT ON OUR BUSINESS, FINANCIAL CONDITION, AND RESULTS OF OPERATIONS.

Our future success will be affected by our ability to attract customers and subscribers from countries outside the United States. We believe that the growth of the Internet in foreign countries will outpace growth of the Internet in the United States in the next decade. Foreign countries could impose withholding taxes or otherwise tax our foreign income, impose tariffs, embargoes or exchange controls, or adopt other restrictions on foreign trade or restrictions relating to use or access of or distribution of software through electronic means. The laws of certain countries also do not protect our intellectual property rights to the same extent as the laws of the United States. In addition, we are subject to the United States export control regulations that may restrict our ability to market and sell our products to certain countries outside of the United States. Failure in successfully marketing our products in international markets could have a material adverse effect on our business, operating results and financial conditions.

Edgar Filing: TRIBEWORKS INC - Form 10KSB

WE EXPECT QUARTERLY REVENUE AND OPERATING RESULTS TO VARY IN FUTURE PERIODS, WHICH COULD CAUSE OUR STOCK PRICE TO FLUCTUATE.

Our limited operating results have varied widely in the past, and we expect they will continue to vary from quarter to quarter as we attempt to commercialize our product. Our quarterly results may fluctuate for many reasons, including:

- Limited operating history
- Dependence on a limited number of customers for a significant portion of our revenue; and
- Dependence on membership fees to provide future revenue.

13

As a result of these fluctuations and uncertainties in our operating results, we believe quarter-to-quarter or annual comparisons of our operating results are not a good indication of our future performance. In addition, at some point in the future, these fluctuations may likely cause us to perform below the expectations of public market analysts or investors. If our results fall below market expectations, the price of our common stock will be adversely affected.

OUR STOCK PRICE IS VOLATILE AND, AS A RESULT, YOU COULD LOSE SOME OR ALL OF YOUR MONEY.

We believe that various factors may cause the market price of our common stock to fluctuate, including announcements of:

- New products by us or our competitors;
- Developments or disputes concerning intellectual property proprietary rights; - Our failing to achieve our operational milestones; and - Changes in our financial conditions or securities analysts' recommendations.

The stock markets, in general, and the shares of Internet companies, in particular, have experienced extreme price fluctuations. These broad market and industry fluctuations may cause the market price of our common stock to decline. In addition, the low trading volume of our stock will accentuate price swings of our stock.

14

ITEM 7. FINANCIAL STATEMENTS.

Edgar Filing: TRIBEWORKS INC - Form 10KSB

TRIBEWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004 AND 2003

15

TRIBEWORKS, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
Report of Independent Registered Public Accounting Firm.....	17
Consolidated Balance Sheet.....	18
Consolidated Statements of Income (Loss).....	19
Consolidated Statements of Cash Flows.....	20
Consolidated Statements of Stockholders' Deficit.....	22
Notes to Consolidated Financial Statements.....	23

16

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Tribeworks, Inc.

We have audited the accompanying consolidated balance sheet of Tribeworks, Inc. and subsidiaries as of December 31, 2004, and the related consolidated statements of income (loss), cash flows, and stockholders' deficit for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Edgar Filing: TRIBEWORKS INC - Form 10KSB

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tribeworks, Inc. and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note C to the financial statements, the Company's financial position and limited capital resources raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Notes C and L. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ TAUBER & Balser, P.C.

Tauber & Balser, P.C.

Atlanta, Georgia
March 30, 2005

17

TRIBEWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2004

Current Assets

Cash	\$	43,729
Accounts receivable, net of allowance for doubtful accounts of \$1,500		32,641
Prepaid expenses		31,292
TOTAL CURRENT ASSETS		<hr/> 107,662

Edgar Filing: TRIBEWORKS INC - Form 10KSB

Other Assets	
Equipment, net of accumulated depreciation of \$50,602	1,691
TOTAL ASSETS	<u>\$ 109,353</u> =====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Accounts payable	\$ 247,703
Accrued expenses	134,887
Due to shareholders	6,232
Billings in excess of costs and estimated earnings on uncompleted contracts	53,240
Note payable	83,701
Deferred revenue	61,971
TOTAL CURRENT LIABILITIES	<u>587,734</u>
Stockholders' Deficit	
Preferred stock: 10,000,000 shares authorized, none issued	-
Common stock: \$.0004 par value, 200,000,000 shares authorized, 4,708,657 shares issued and outstanding	1,883
Additional paid-in capital	3,035,725
Accumulated deficit	(3,515,989)
TOTAL STOCKHOLDERS' DEFICIT	<u>(478,381)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 109,353</u> =====

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

TRIBEWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2004 AND 2003

2004

2003

Edgar Filing: TRIBEWORKS INC - Form 10KSB

REVENUES	\$ 821,572	\$1,194,792
COST OF SALES	328,862	406,926
	<u> </u>	<u> </u>
GROSS PROFIT	492,710	787,866
	<u> </u>	<u> </u>
OPERATING EXPENSES		
Product support	40,377	50,987
Product development	94,387	142,692
Sales and marketing	200,488	232,002
General and administrative	350,671	321,751
	<u> </u>	<u> </u>
	685,923	747,432
	<u> </u>	<u> </u>
INCOME (LOSS) FROM OPERATIONS	(193,213)	40,434
OTHER INCOME (EXPENSE)		
Interest expense	(792)	(7,726)
Other income	-	8,110
	<u> </u>	<u> </u>
	(792)	384
	<u> </u>	<u> </u>
INCOME (LOSS) BEFORE INCOME TAXES	(194,005)	40,818
INCOME TAXES	-	-
	<u> </u>	<u> </u>
NET INCOME (LOSS)	\$ (194,005)	\$ 40,818
	=====	=====
EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED	\$ (0.04)	\$ 0.01
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	4,708,657	4,660,575
	<u> </u>	<u> </u>
	=====	=====

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

Edgar Filing: TRIBEWORKS INC - Form 10KSB

19

TRIBEWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (194,005)	\$ 40,818
	<u> </u>	<u> </u>
Adjustments:		
Depreciation	1,232	4,362
Amortization of unearned compensation	3,369	7,306
Gain on extinguishment of accounts payable	-	(8,110)
Changes in:		
Accounts receivable	133,777	(133,973)
Costs and estimated earnings in excess of billings on uncompleted contracts	23,643	(23,643)
Prepaid expenses	26,582	(19,820)
Accounts payable	(1,167)	34,476
Accrued expenses	116,534	(12,999)
Deferred revenue and billings in excess of costs and estimated earnings on uncompleted contracts	(106,008)	52,399
Total adjustments	<u>197,962</u>	<u>(100,002)</u>
Net cash provided (used) by operating activities	<u>3,957</u>	<u>(59,184)</u>
	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	-	(3,697)
	<u> </u>	<u> </u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment of note payable	-	(40,500)
	<u> </u>	<u> </u>
NET INCREASE (DECREASE) IN CASH	3,957	(103,381)
CASH, BEGINNING OF PERIOD	39,772	143,153
	<u> </u>	<u> </u>
CASH, END OF PERIOD	\$ 43,729	\$ 39,772
	=====	=====

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

TRIBEWORKS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
 YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$792	\$ 7,726
	=====	=====
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES		
Capitalization of prior year accrued interest into note payable	\$ -	\$20,000
	=====	=====
Stock issued in extinguishment of accounts payable	\$ -	\$26,000
	=====	=====

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

TRIBEWORKS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
 YEARS ENDED DECEMBER 31, 2004 AND 2003

	Common Stock		Additional	Unearned
	Shares	Amount	Paid In	Compensati
	-----	-----	-----	-----
Balances at January 1, 2003	4,658,657	\$1,883	\$3,009,745	\$(10,675)
Stock issued in extinguishment of accounts payable	50,000	20	25,980	-

Edgar Filing: TRIBEWORKS INC - Form 10KSB

Amortization of unearned compensation	-	-	-	7,306
Net income	-	-	-	-
	<u>4,708,657</u>	<u>1,883</u>	<u>3,035,725</u>	<u>(3,369)</u>
Balances at December 31, 2003	4,708,657	1,883	3,035,725	(3,369)
Amortization of unearned compensation	-	-	-	3,369
Net income (loss)	-	-	-	-
	<u>4,708,657</u>	<u>\$1,883</u>	<u>\$3,035,725</u>	<u>\$ -</u>
Balances at December 31, 2004	4,708,657	\$1,883	\$3,035,725	\$ -
	=====	=====	=====	=====

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

22

TRIBEWORKS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE A - NATURE OF BUSINESS

The Company's business activity results from a technology that provides tools for creating and delivering multimedia applications. Internet media developers use the technology for creation and deployment of electronic content that utilizes interactive features combining graphics, video, and audio content. The Company exploits its software primarily through the licensing of its software tools to multimedia and software developers and through building customized licensed versions that include professional engineering to meet contract requirements.

NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The financial statements of the Company are presented on a consolidated basis and include the Company and its wholly owned subsidiaries, Tribeworks Development Corporation and Tribeworks Japan Limited, through the third quarter of 2004, the date of the termination of Tribeworks Japan Limited. All material intercompany transactions have been eliminated.

During the quarter ended September 30, 2004, the Company officially

Edgar Filing: TRIBEWORKS INC - Form 10KSB

terminated its Tribeworks Japan subsidiary and office in Japan. The costs of closure were not material. The Company has continued to conduct its business operations in Japan through the use of consultants.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined.

Significant estimates used in preparing these financial statements include those used in computing profit percentages under the percentage-of-completion revenue recognition method. It is at least reasonably possible that these significant estimates used will change within the next year.

ACCOUNTS RECEIVABLE

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. The amount of the accounting loss that the Company is at risk for these unsecured accounts receivable is limited to their carrying value, which was \$32,641 at December 31, 2004. The Company provides an allowance for doubtful accounts and records bad debts based on a periodic review of accounts receivable to consider the collectibility of each account.

CUSTOMER CONCENTRATIONS

In 2004 three customers accounted for 36%, 14% and 7% of total revenues, respectively. In 2003 three customers accounted for 51%, 7% and 4% of total revenues, respectively. At December 31, 2004, accounts receivable from these major customers totaled \$17,000.

Revenues from international customers were approximately 53% and 63% of total revenues in 2004 and 2003, respectively. Revenues are paid in U.S. dollars and Japanese yen. Approximately 37% and 52% of revenues in 2004 and 2003, respectively, were generated from Japanese customers. At December 31, 2004, accounts receivable from all international customers totaled approximately \$7,000.

23

TRIBEWORKS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TECHNOLOGY LICENSE

Edgar Filing: TRIBEWORKS INC - Form 10KSB

The Company's principal business activity focuses on the commercialization of iShell, which was developed by an officer and director of the Company and an affiliate of the Company. In November 1999 the Company purchased all rights, title and interest in iShell in exchange for \$100,000 and warrants to purchase 75,758 shares of common stock at an exercise price of \$1.32 per share, valued at \$30,000. The \$130,000 cost was fully amortized at December 31, 2002.

REVENUE RECOGNITION

Revenue is generally recognized when all contractual or transfer obligations have been satisfied and collection of the resulting receivable is probable.

Revenues from membership subscriptions are recognized proportionally over the membership period, usually one year. Revenues and estimated profits on custom development services are generally recognized under the percentage-of-completion method of accounting using cost-to-cost methodology; profit estimates are revised periodically based on changes in facts; any losses on contracts are recognized immediately. Revenue from the sale of licenses are recognized when all the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. If all aspects but the last have been met, revenue is recognized as payments from customers are received.

PRODUCT DEVELOPMENT COSTS

The Company expenses all product development costs in the period the costs are incurred.

STOCK-BASED AWARDS

The Company accounts for stock based awards to employees under its "Equity Incentive Plan" as compensatory in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"). The Company also issues stock based awards for services performed by consultants and other non-employees and accounts for them in accordance with Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123").

Financial Accounting Standards Board Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure ("SFAS 148"), requires the Company to provide pro forma information regarding net income and earnings per share as if compensation cost for all awards had been determined in accordance with the fair value based method prescribed in SFAS 123 as follows:

24

TRIBEWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK-BASED AWARDS (CONTINUED)

Edgar Filing: TRIBEWORKS INC - Form 10KSB

	2004	2003
Net income (loss), as reported	\$(194,005)	\$ 40,818
Add: Stock-based compensation expense included in net income, no tax effect	3,369	7,306
Deduct: Total stock-based compensation expense determined under fair value method for all awards, no tax effect	(3,969)	(20,141)
Pro forma net income (loss)	\$(194,605)	\$ 27,983

Since the difference between the reported and pro forma net income (loss) available to common shareholders is insignificant, there is no effect on the net earnings (loss) per common share.

The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model, however, no options were granted during 2004 and 2003.

FOREIGN CURRENCY TRANSLATION

Prior to its closure, Tribeworks Japan prepared its financial statements in a currency other than U.S. dollars. Results of operations and cash flows are translated at average exchange rates during the period, and assets and liabilities are translated at end-of-period exchange rates. The Company determined that the foreign currency translation effect was immaterial and, therefore, translation adjustments were not included as a separate component of accumulated other comprehensive income (loss) in stockholders' equity (deficit).

EARNINGS PER COMMON SHARE

Basic earnings per share ("EPS") is computed based on net income (loss) divided by the weighted average number of common shares outstanding. Diluted EPS is computed based on net income (loss) divided by the weighted average number of common shares and potential common share equivalents outstanding. Potential common share equivalents are those related to stock options and warrants. However, such potential common share equivalents would have no effect on diluted earnings per share in 2004 and 2003. Therefore, basic and diluted earnings per share is the same in 2004 and 2003.

NOTE C - GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. Although the Company reported net income during 2003, it reported a net loss during 2004, and had a working capital deficiency of \$480,072 and an equity deficiency of \$478,381 at December 31, 2004. The Company is also in default on its note payable and has deferred payment of certain accounts payable and accrued expenses.

In light of the Company's financial condition, on March 30, 2005, the Company announced a plan of reorganization, which is described in NOTE L - SUBSEQUENT EVENTS.

In view of the matters described, there is substantial doubt about the Company's ability to continue as a going concern. The recoverability of the recorded assets and satisfaction of the liabilities reflected in the

Edgar Filing: TRIBEWORKS INC - Form 10KSB

accompanying balance sheet is dependent upon continued operation of the Company, which is in turn dependent upon the Company's ability to meet its cash

25

TRIBEWORKS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

NOTE C - GOING CONCERN (CONTINUED)

flow requirements on a continuing basis and to succeed in its future operations. There can be no assurance that management will be successful in implementing its plans. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE D - COSTS, ESTIMATED EARNINGS AND BILLINGS ON UNCOMPLETED CONTRACTS

At December 31, 2003, there were no costs and estimated earnings in excess of billings on uncompleted contracts. At December 31, 2004, billings in excess of costs and estimated earnings on uncompleted contracts, which was comprised of two jobs in progress, consisted of \$148,000 of billings, less \$46,000 of costs and \$49,000 of estimated earnings.

NOTE E - NOTE PAYABLE

On January 21, 2001, the Company borrowed \$100,000 under a Private Placement Agreement. Under the terms of the agreement the lender, upon the closing of a "Qualified Financing" (as that term is defined in the agreement), could convert the loan to common stock of the Company. Such conversion never took place, and on June 12, 2003, the Company and the creditor restructured this note. The original terms for the \$100,000 note accrued simple interest at 10%, with all principal and accrued interest due on demand. The restructured note accrues interest at 4% and was increased by \$20,000 for previously accrued interest. The new note is nonconvertible, and calls for an initial payment of \$30,000, which was made during June 2003, and then monthly payments of \$3,500 through February 2005, with a final payment of \$24,201 in March 2005. If the Company makes all note payments timely in accordance with the note agreement, the creditor will forgive \$20,000 of the final payment. In accordance with Statement of Financial Accounting Standards No. 15, ACCOUNTING BY DEBTORS AND CREDITORS FOR TROUBLED DEBT RESTRUCTURINGS ("SFAS 15"), the carrying value of the debt, including accrued interest, is equal to the total amount of future payments under the new note. Consequently, all future debt payments will reduce the principal balance and no interest expense will be recorded for this note.

The Company failed to make the scheduled note payments after September 2003 and has received notification of default from the lender. As such, the note was due in full on September 30, 2004 and is accruing default interest at a rate of 4% on the outstanding payment amounts of the note.

NOTE F - INCOME TAXES

Deferred income tax assets and the related valuation allowances result principally from the potential tax benefits of net operating loss carryforwards. The Company has recorded a valuation allowance to reflect the uncertainty of the ultimate utilization of the deferred income tax assets as follows:

Edgar Filing: TRIBEWORKS INC - Form 10KSB

	2004	2003
	-----	-----
Deferred income tax assets	\$ 1,391,000	\$ 1,365,000
Less valuation allowance	(1,391,000)	(1,365,000)
	-----	-----
Net deferred income tax assets	\$ -	\$ -
	=====	=====

At December 31, 2002, the valuation allowance for deferred income tax assets was 1,288,000.

26

TRIBEWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE F - INCOME TAXES (CONTINUED)

The following is a reconciliation of the applicable U.S. federal income tax rate to the effective tax rate included in the consolidated statements of income (loss):

	2004	2003
	-----	-----
U.S. federal income tax rate	(34.0)%	(15.0)%
State income tax rate, net of federal rate	(5.8)	(7.5)
Valuation allowance	39.8	22.5
	-----	-----
	0.0%	0.0%
	=====	=====

At December 31, 2004, the Company had available net operating loss carryforwards for income tax reporting purposes of approximately \$3,400,000 which will expire in various periods through 2024. At April 15, 2004, the Company had not filed its 2003 federal and state income tax returns.

NOTE G - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and receivables for which the Company believes that the fair value approximates their carrying amounts. It was impracticable to estimate the fair value of the other financial instruments because of the financial position and results of operations of the Company.

NOTE H - STOCK OPTIONS AND STOCK WARRANTS

STOCK OPTIONS

The Company maintains a 1999 Equity Incentive Plan for the issuance of stock options to employees, directors and consultants. The exercise price is generally the estimated fair market value at the grant date as determined by the Company's Board of Directors. The options vest over a period up to four years. At December 31, 2004, there were 400,000 shares reserved for issuance under the 1999 Equity Incentive Plan.

Edgar Filing: TRIBEWORKS INC - Form 10KSB

The Company also maintains a 2004 Employee Stock Incentive Plan for the issuance of stock options, common stock, restricted stock, and stock bonuses to employees, officers and key consultants. At December 31, 2004, there were 1,177,164 shares reserved for issuance under the 2004 Employee Stock Incentive Plan, however, no awards had been issued from the plan as of December 31, 2004.

A summary of the Company's stock options as of December 31, 2004 and 2003 and changes during the years ending on those dates is presented below:

	2004		2003	
	Options	Weighted Average Exercise Price	Options	Wei Av Exerci
Outstanding at beginning of year	351,979	\$1.64	351,979	\$1.
Granted	-	-	-	
Cancelled	(103,479)	2.21	-	
Outstanding at end of year	248,500	\$1.42	351,979	\$1.
Options exercisable at end of year	248,500	\$1.42	328,333	\$1.
Weighted-average fair value of options granted during the year		\$ -		\$

27

TRIBEWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE H - STOCK OPTIONS AND STOCK WARRANTS (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2004:

Options	Options Outstanding		Options Exercisable	
	Weighted Average	Weighted Average	Options	Weighted Average

Edgar Filing: TRIBEWORKS INC - Form 10KSB

Outstanding	Remaining Life	Exercise Price	Exercisable	Exercise Price
5,000	4.50 years	\$0.20	5,000	\$0.20
6,250	5.40 years	11.20	6,250	11.20
7,500	5.55 years	12.36	7,500	12.36
6,000	5.65 years	10.00	6,000	10.00
5,000	5.88 years	4.00	5,000	4.00
45,000	6.01 years	1.50	45,000	1.50
7,500	6.22 years	1.00	7,500	1.00
97,500	6.61 years	0.24	97,500	0.24
50,000	7.47 years	0.14	50,000	0.14
18,750	7.78 years	0.16	18,750	0.16
<u>248,500</u>			<u>248,500</u>	
=====			=====	

STOCK WARRANTS

The Company has issued stock warrants in conjunction with the issuance of common stock, debt, and the settlement of debt and for services. Activity related to stock warrants was as follows:

	Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2002	613,853	\$0.98
Expired	(558,853)	0.98
Outstanding at December 31, 2003	<u>55,000</u>	1.25
Expired	(10,000)	0.14
Outstanding at December 31, 2004	<u>45,000</u>	1.50
	=====	

No warrants were granted during the years ended December 31, 2003 and 2004.

The following table summarizes information about stock warrants outstanding at December 31, 2004:

Warrants Outstanding			Warrants Exercisable	
Warrants Outstanding	Weighted Average Remaining Life	Exercise Price	Warrants Exercisable	Exercise Price
45,000	1.01 years	\$1.50	45,000	\$1.50

NOTE I - COMMITMENTS

LEASES

On December 16, 2004, the Company entered into a two-year lease agreement for its principal office space. The monthly rent is approximately \$1,950 per month. Total rent expense for the years ended December 31, 2004 and 2003 was \$40,000 and \$59,000, respectively.

TRIBEWORKS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE J - RELATED PARTY TRANSACTIONS

OFFICER AND DIRECTOR OPTIONS AND WARRANTS

At December 31, 2004, the Company had outstanding the following qualified and nonqualified stock options granted to officers and directors which are included in Note H:

Common Shares Under Option	Exercise Price	Expiration Date
-----	-----	-----
22,500	\$0.24	June 30, 2009
45,000	1.50	January 11, 2011
75,000	0.24	March 26, 2011

142,500		

Of the total outstanding options granted to officers and directors as discussed above, all are exercisable at December 31, 2004.

At December 31, 2004, the Company had outstanding the following warrants to officers and directors which are included in Note H:

Common Shares Under Warrant	Exercise Price	Expiration Date
-----	-----	-----
45,000	\$1.50	January 1, 2006

Of the total outstanding warrants granted to officers and directors as discussed above, all are exercisable at December 31, 2004.

DUE TO SHAREHOLDERS

The \$6,232 due to shareholders at December 31, 2004 is non-interest bearing and due on demand.

ACCRUED PAYROLL

Effective July 1, 2004, the Company entered into one-year compensation arrangements with two of its executive officers. The arrangements provide for annualized salaries of \$120,000 and \$110,000 for the Company's Chief Executive Officer, Duncan Kennedy, and Chief Financial Officer, Robert Davidorf, respectively. As part of the arrangement, any of this compensation accrued but not paid can be converted, at the option of the executive officers, into common shares of the Company at any time through June 30, 2007. The conversion rate is equal to the accrued amount divided by the average closing bid of the Company's common stock for the 20 trading days previous to the election date. As part of

Edgar Filing: TRIBEWORKS INC - Form 10KSB

the arrangement, the Company will hold any issued shares in escrow for one year following the date of conversion. Termination of employment during the one-year period shall cause the issued stock to be forfeited and returned to the Company and, as such, the outstanding salary underlying the forfeited stock shall not be owed. At December 31, 2004, the Company had accrued payroll balances of \$35,208 to Duncan Kennedy, and \$51,890 to Robert Davidorf. Note that Duncan Kennedy resigned as CEO on March 29, 2005. For additional information, see NOTE L - SUBSEQUENT EVENTS.

In addition, the Company had an accrued payroll balance of \$34,437 to current Chairman and CEO, J. Glenn Pogue, based on his services as an employee during 2004.

NOTE K - REVERSE STOCK SPLIT

On March 24, 2004, the Board of Directors authorized a one-for-four reverse stock split of the Company's common stock. The reverse split became effective on June 4, 2004, thereby reducing the number of common shares outstanding by 75% and increasing the par value to \$0.0004. All references in the accompanying consolidated financial statements to the number of common shares, number and exercise price of stock options and stock warrants, and per share amounts for the periods prior to the reverse stock split have been restated to reflect the reverse stock split.

29

TRIBEWORKS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

NOTE L - SUBSEQUENT EVENTS

PLAN OF REORGANIZATION

On March 30, 2005, the Company announced a plan of reorganization, intended to allow the Company to maintain its public reporting requirements, reduce its debt, and explore new business directions. The plan of reorganization includes the transfer of most assets and liabilities to the registrant's operating subsidiary, Tribeworks Development Corporation, and possible sale of the subsidiary to current management or others.

After further development, the plan is expected to be submitted to shareholders for a vote. A Note in an amount of up to \$100,000 was entered into as of March 29, 2005 to help cover reorganization costs, which were estimated as of March 30, 2005 to be the following: Accounting Fees: \$30,000, Temporary Accountant: \$5,000, Tribeworks Development Corp. Valuation: \$15,000, Sell-off Administrative Costs: \$7,000, Attorney Fees: \$20,000, Annual General Meeting: \$5,000. The funds received under the note are being held in escrow and will be released from escrow only as applicable expenses are incurred. There can be no assurance that management will be successful in implementing its plans.

CHANGE OF MANAGEMENT

Effective March 29, 2005, Duncan Kennedy and Patrick Soquet voluntarily resigned as Directors of the Company. Duncan Kennedy also resigned as the CEO and President of the registrant effective as of the same date, although he will

Edgar Filing: TRIBEWORKS INC - Form 10KSB

continue to serve as President of the registrant's wholly owned operating subsidiary, Tribeworks Development Corporation.

Effective March 29, 2005, J. Glenn Pogue was appointed by the Board of Directors as CEO of the registrant and was also brought onto the Board of Directors as Chairman. Mr. Pogue was formerly an employee of the Company.

30

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. CONTROLS AND PROCEDURES.

The Chief Executive Officer and the Chief Financial Officer of the Registrant have concluded, based on their evaluation as of the end of the period covered by this Report, that the Registrant's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Registrant in the reports filed or submitted by it under the Securities Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Registrant in such reports is accumulated and communicated to the Registrant's management, including the Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file certain reports regarding ownership of, and transactions in, the Company's securities with the Securities and Exchange Commission (the "SEC"). Such officers, directors and 10% stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms that they file.

Based solely on its review of copies of Forms 3 and 4 and amendments thereto furnished to the Company pursuant to Rule 16(a) - (e) and Forms 5 and amendments thereto furnished to the Company with respect to the last fiscal year, and any written representations referred to in Item 405(b)(2)(i) of Regulation S-B stating that no Forms 5 were applicable to the Company's officers, directors and 10% stockholders were complied with.

31

Edgar Filing: TRIBEWORKS INC - Form 10KSB

ITEM 10. EXECUTIVE COMPENSATION.

DIRECTOR COMPENSATION

Directors do not receive any compensation for their services as members of the Board of Directors, although this is subject to change during 2005. Directors are reimbursed for expenses in connection with attendance at Board of Directors and committee meetings. Directors are eligible to participate as optionees under our compensatory equity plans.

EXECUTIVE COMPENSATION

The following table provides certain summary information concerning compensation of our Chief Executive Officer. No other executive officer received annual salary and bonus in excess of \$100,000 for the year ended December 31, 2003.

Name and Principal Position	Year	ANNUAL COMPENSATION			LONG TERM COMPEN		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	AWARDS		
					Restricted Stock Awards (\$)	Securities Underlying Options/SARs	P
Duncan J. Kennedy, Chief Executive Officer, President and Director	2004	68,794	0	35,208	0	0	
	2003	127,449	0	0	0	0	
	2002	55,335	0	0	0	0	

OPTION GRANTS IN LAST FISCAL YEAR

There were no grants of stock options or warrants to any of the executive officers named in the compensation table above during fiscal year 2004.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

The following table sets forth information concerning option and warrant exercises in 2004 and exercisable and unexercisable stock options and warrants held by the executive officers named in the summary compensation table at December 31, 2004. The value of unexercised in-the-money options and warrants is based on a value of \$0.16 per share, the fair market value of our common stock

Edgar Filing: TRIBEWORKS INC - Form 10KSB

as of December 31, 2004, as determined by our board of directors minus the actual per share exercise prices, multiplied by the number of shares underlying the option or warrant. The listed options and warrants were granted under the 1999 Stock Option Plan.

NAME AND PRINCIPAL POSITION	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT F-Y END		VALUE IN-THE-EXERCISABLE
			EXERCISABLE	UNEXERCISABLE	
Duncan Kennedy, Chief Executive Officer, President and Director	--	--	22,500	--	--

32

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth information regarding the beneficial ownership of our common stock at April 15, 2004, by (i) each of our directors and named executive officers; (ii) all of our directors and executive officers as a group, and (iii) each person or group known to us to own beneficially more than 5% of the outstanding common stock.

NAME AND ADDRESS OF BENEFICIAL OWNER (1)	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Duncan J. Kennedy	430,940	9.15%
J. Glenn Pogue	0	0.00%
Robert C. Davidorf (3)	205,025	4.35%
All Directors and Officers As a Group (3 persons) (4)		13.50%
Gilbert Amar	658,509	13.99%
Patrick Soquet (5)	870,167	18.48%

(1) Unless otherwise noted, the address of each of the named directors, officers and individuals is: c/o Tribeworks, Inc., 243 Front Street, San Francisco, CA 94111.

(2) Includes 22,500 shares issuable upon the exercise of options and warrants that are exercisable within 60 days of April 15, 2005.

Edgar Filing: TRIBEWORKS INC - Form 10KSB

- (3) Includes 165,000 shares issuable upon the exercise of options and warrants that are exercisable within 60 days of April 15, 2005.
- (4) Effective March 29, 2005, Duncan Kennedy and Patrick Soquet voluntarily resigned as Directors of the Company. Duncan Kennedy also resigned as the CEO and President of the registrant effective as of the same date, although he will continue to serve as President of the registrant's wholly owned operating subsidiary, Tribeworks Development Corporation. Effective March 29, 2005, J. Glenn Pogue was appointed by the Board of Directors as CEO of the registrant and was also brought onto the Board of Directors as Chairman. Mr. Pogue was formerly an employee of the Company.
- (5) All of the shares are owned of record by Keepsake, a Belgian entity owned by Mr. Soquet.

The information required by Item 201(d) of Regulation S-B is contained herein in Item 5 - Market for Common Equity and Related Stockholder Matters.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On April 1, 2005, our wholly owned subsidiary Tribeworks Development Corporation entered into a contract with a Canadian company wholly owned by our former CEO, Chairman, and President, Duncan Kennedy, to provide the services of Mr. Kennedy to continue to serve as President of Tribeworks Development Corporation.

On January 1, 2004, we entered into a consulting contract with a Belgian software company that is wholly owned by the brother of Patrick Soquet, a former Director and beneficial owner of more than 5% of our common stock. Under the contract, the Belgian company will perform software engineering services for us.

As of April 15, 2005, we have not entered into any other contractual arrangements with related parties. There is not any other currently proposed transaction, or series of the same, to which we are a party, in which the amount involved exceeds \$60,000 and in which, to our knowledge, any director, executive officer, nominee, 5% Shareholder or any member of the immediate family of the foregoing persons, have or will have a direct or indirect material interest.

33

ITEM 13. EXHIBITS

(a) The following is a list of exhibits, some of which are incorporated by reference:

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
2.1	Agreement of Merger between Tribeworks, Inc., a California corporation, and Tribeworks Acquisition Corporation, dated November 2, 1999 (Incorporated by reference to Exhibit 2.1 to the Registrant's Form 10-SB/A filed July 10, 2000)
3.1	Certificate of Incorporation of Tribeworks, Inc., a Delaware Corporation (Incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-SB/A filed July 10, 2000 and Exhibit A to the Registrant's Proxy Statement on Schedule 14A filed April 14, 2004)

Edgar Filing: TRIBEWORKS INC - Form 10KSB

- 3.2 Bylaws of Tribeworks, Inc., a Delaware Corporation (Incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-SB/A filed July 10, 2000)
- 10.1 Pan World Corporation 1999 Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 filed September 26, 2001)
- 10.2 Tribeworks, Inc. 2001 Stock Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 filed September 26, 2001)
- 10.3 Tribeworks, Inc. 2004 Employee Stock Incentive Plan (incorporated by reference to Exhibit B to the Registrant's Proxy Statement on Schedule 14A filed April 14, 2004)
- 21.1 Subsidiaries of the Issuer
- 24.1 Power of Attorney (appears on the signature page of this report)
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15(d)-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to Section 1350 of Title 18 of the United States Code
- 32.2 Certification of Chief Financial Officer Pursuant to Section 1350 of Title 18 of the United States Code
- 99.1 Asset and Liability Assignment and Indemnification Agreement, dated March 29, 2005 (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed on March 31, 2005)
- 99.2 Promissory Note, dated March 29, 2005 (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed on March 31, 2005)

(b) The following reports on Form 8-K were filed during the quarter ended December 31, 2004:

None

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Tauber & Balser, P.C. billed or is expected to bill the Company the following fees for services provided during the years ended December 31, 2004 and 2003:

(IN THOUSANDS)	FEES FOR THE YEAR ENDED	
	DECEMBER 31, 2004	DECEMBER 31, 2003
Audit fees (1)	\$35,000	\$34,000
Audit-related fees (2)	-	575

Edgar Filing: TRIBEWORKS INC - Form 10KSB

Tax fees (3)	-	2,720
All other fees (4)	-	1,325
Total fees for services	<u>\$35,000</u> =====	<u>\$38,620</u> =====

- (1) Audit fees are the fees billed for professional services rendered for the audit of our annual financial statements and reviews of quarterly financial statements. For 2004 the figure is an estimate, as no bills have yet been issued for the audit. This category also includes fees for statutory audits required domestically and internationally, comfort

34

letters, consents, assistance with and review of documents filed with the SEC, attest services, work done by tax professionals in connection with the audit or quarterly reviews, and accounting consultations and research work necessary to comply with generally accepted auditing standards.

- (2) Audit Related fees are the fees billed for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review and are not reported as audit fees.
- (3) Tax fees are the fees billed for professional services rendered for tax compliance, tax advice and tax planning, except those provided in connection with the audit or quarterly reviews.
- (4) All other fees include fees billed for professional services not covered by (1) through (3) above.

The Board of Directors, acting as the Audit Committee, pre-approves all audit and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor.

35

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRIBEWORKS, INC.

By: /s/ ROBERT C. DAVIDORF

Robert C. Davidorf
Chief Financial Officer

Date: APRIL 15, 2005

