ONCOURSE TECHNOLOGIES INC
Form 10QSB
August 14, 2002

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

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FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended: June 30, 2002

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from: ---------- to ----------

Commission File Number: 0-31813

ONCOURSE TECHNOLOGIES, INC.
(Exact name of small business issuer as specified in its charter)

NEVADA	91-1922441
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3106 South 166th Street
New Berlin, WI 53151
(Address of principal executive offices)

Issuer's telephone number: (262) 860-0565
Issuer's facsimile number: (262) 860-0561

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

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. [X] Yes [ ] No

Number of shares outstanding of each of the issuer's class of common equity, as of August 1, 2002: 18,768,664

This Quarterly Report on Form 10-QSB includes financial statements, which have not been reviewed by an independent public accountant under Item 310(b) of Regulation S-B. The Company discontinued its engagement of Arthur Andersen LLP on June 7, 2002, and is still in the process of retaining a new independent public accountant as of the date this Form 10-QSB was filed.

Transitional Small Business Disclosure Format (Check one): Yes [ ]; No [X]

ONCOURSE TECHNOLOGIES, INC.

FORM 10-QSB
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

This Quarterly Report on Form 10-QSB includes financial statements, which have not been reviewed by an independent public accountant under Item 310(b) of Regulation S-B. The Company discontinued its engagement of Arthur Andersen LLP on June 7, 2002, and is still in the process of retaining a new independent public accountant as of the date this Form 10-QSB was filed. The Company expects to engage a new public accountant, which will review the financial statements contained in this Form 10-QSB after it has been engaged. Upon completion of the review, if there is a change in these financial statements, the Company will file an amended report on Form 10-QSB containing the reviewed financial statements, a discussion of any material changes from the unreviewed financial statements and any other section of the Form 10-QSB that is amended to reflect any changes in the financial statements.

OnCourse Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets
As of June 30, 2002 (Unaudited) and December 31, 2001 (Audited)

Assets	June 30, 2002	December 31, 2001
Current Assets:		
Cash	$73,585	$76,761
Accounts Receivable, Less Allowance for Doubtful Accounts of $145,103 and $163,054, Respectively	1,118,275	1,081,189
Prepaids and Other Assets	300,844	139,138

Deferred Income Tax Asset	581,513	633,805
Total Current Assets	2,074,217	1,930,893
Note Receivable from Shareholder	-	48,684
Capitalized Software, Less Accumulated Amortization of $3,261,413 and $2,558,611, Respectively	4,966,688	5,014,774
Property and Equipment, at Cost:		
Computer Equipment and Purchased Software	456,074	448,998
Capital Projects in Process	-	42,357
Furniture, Fixtures and Vehicles	133,184	131,649
Total Property and Equipment	589,258	623,004
Less- Accumulated Depreciation	(368,517)	(313,993)
Net Property and Equipment	220,741	309,011
Goodwill, Less Accumulated Amortization of $2,156,755 and $2,156,755, Respectively	5,808,068	5,978,166
Assembled Workforce, Less Accumulated Amortization of $60,238 and $60,238, Respectively	159,762	159,762
Trade Names, Less Accumulated Amortization of $88,611 and $70,278, Respectively	461,389	479,722
Distribution Network, Less Accumulated Amortization of $207,143 and $164,286, Respectively	392,857	435,714
Other Assets	110,627	158,829
Total Assets	$14,194,349	$14,515,555

The accompanying consolidated notes to financial statements are an integral part of these consolidated balance sheets.

ONCOURSE TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
As of June 30, 2002 (Unaudited) and December 31, 2001 (Audited)

Liabilities and Shareholders' Equity	June 30, 2002	December 31, 2001
Current Liabilities:		
Line of Credit	$341,000	$120,000
Current Portion of Long-Term Debt	116,669	113,122
Current Portion of Capital Leases	1,220	5,380
Accounts Payable	922,235	1,021,673
Accrued Commissions	134,425	109,813

Accrued Wages and Other Liabilities	284,478	194,750
Notes Payable to Shareholders and Employees	184,353	126,821
Deferred Revenue	1,762,920	1,889,657
Total Current Liabilities	3,747,300	3,581,216
Line of Credit	1,099,950	1,099,950
Notes Payable to Shareholders and Employees, Less Current Portion	80,710	-
Long-Term Debt, Less Current Portion	676,916	730,388
Capital Lease Obligations, Less Current Portion	970	1,313
Deferred Income Tax Liability	100,162	397,936
Shareholders' Equity:		
Common Stock, $0.001 Par Value, 50,000,000	18,769	18,269
18,269,253hShares,Issued8and8Outstanding, Respectively		
Preferred Stock, $0.001 Par Value and No Par Value, Respectively, 10,000,000 Shares Authorized, 192 and 192 Shares Issued and Outstanding, Respectively	192,000	192,000
Additional Paid-In Capital	15,575,271	15,256,331
Warrants	562,788	628,539
Stock Options	69,110	60,598
Retained Deficit	(7,929,597)	(7,450,985)
Total Shareholders' Equity	8,488,341	8,704,752
Total Liabilities and Shareholders' Equity	$14,194,349	$14,515,555

The accompanying consolidated notes to financial statements are an integral part of these consolidated balance sheets.

OnCourse Technologies, Inc. and Subsidiaries

Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2002 and 2001 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net Sales	$1,281,730	$1,464,906	$2,513,572	$2,736,137
Cost of Sales	523,903	457,908	1,048,618	871,150
Gross Profit	757,827	1,006,998	1,464,954	1,864,987
Selling Expenses	461,140	587,297	944,124	1,166,333
Research and Development	94,912	86,038	146,069	160,866

Goodwill and Other Intangible Amortization	30,595	333,925	61,191	672,076
General and Administrative Expenses	469,573	545,024	924,473	1,127,327
Operating Loss	(298,393)	(545,286)	(610,903)	(1,261,615)
Interest Expense	41,648	29,460	72,951	57,784
Loss Before Income Taxes	(340,041)	(574,746)	(683,854)	(1,319,399)
Income Tax Benefit	92,747	86,523	208,083	219,201
Net Loss	$(247,294)	$(488,223)	$(475,771)	$(1,100,198)
Basic and Diluted Loss Per Share	$(0.01)	$(0.03)	$(0.03)	$(0.06)

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

OnCourse Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2002 and 2001 (Unaudited)

	Six Months Ended June 30,	
	2002	2001
Cash Flows from Operating Activities:		
Net Loss	$(475,771)	$(1,100,198)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities-		
Depreciation and Amortization	869,555	1,267,433
Loss on Disposal of Property and Equipment	42,356	1,795
Non-Cash Compensation	-	1,275
Non-Cash Consulting Services	29,512	204,035
Deferred Income Taxes, Net	(141,332)	(102,945)
Changes in Current Assets and Liabilities-		
Accounts Receivable	(37,085)	(167,132)
Prepaids and Other Current Assets	(96,321)	(116,953)
Accounts Payable	(99,438)	179,113
Accrued Liabilities	111,499	(13,533)
Deferred Revenue	(126,737)	89,770
Net Cash Provided by Operating Activities	76,238	242,660
Cash Flows From Investing Activities:		
Capitalized Software Development Costs	(654,717)	(646,953)

Purchase of Property and Equipment	(8,610)	(26,753)
Other Assets	(2,837)	(798)
Net Cash Used in Investing Activities	(666,164)	(674,504)
Cash Flows From Financing Activities:		
Proceeds From Line of Credit, Net	221,000	288,000
Proceeds From Notes Payable to Shareholders and Employees	150,000	-
Payments on Long-Term Debt and Notes Payable to Shareholders and Employees	(61,683)	(59,156)
Payments on Capital Lease Obligation, Net	(4,502)	(6,293)
Proceeds from Common Stock Issuance	233,251	100,000
Decrease (Increase) in Notes Receivable from Shareholder	48,684	(1,840)
Net Cash Provided by Financing Activities	586,750	320,711
Net Decrease in Cash	(3,176)	(111,133)
Cash, Beginning of Period	76,761	200,411
Cash, End of Period	$73,585	$89,278

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

OnCourse Technologies, Inc. and Subsidiaries

Consolidated Notes to Financial Statements
For the Six Months Ended June 30, 2002 and 2001 (Unaudited)

(1) Basis of Presentation-

The accompanying unaudited condensed consolidated financial statements of OnCourse Technologies, Inc. (the "Company") have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

The information furnished herein reflects all adjustments and accruals that management believes are necessary to fairly state the operating results for the respective periods. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations of the Securities and Exchange Commission under item 310 of Regulation S-B. The notes to the condensed financial statements should be read in conjunction with the notes to the consolidated financials contained in the Company's Form 10-KSB for the year ended December 31, 2001. The Company's management believes that the disclosures are sufficient for interim financial reporting purposes. The results of

operations for any interim period are not necessarily indicative of the results for the year.

(2) Liquidity-

The Company has incurred losses over the last three years and has negative working capital. Based upon its current plans, the Company believes it has the ability to raise sufficient equity and debt funds to meet its operating expenses and capital requirements through fiscal year 2002 and into fiscal year 2003. There is no assurance that such additional funds will be available on acceptable terms, if at all. Should the plans contemplated by management not be consummated, the Company may have to seek alternative sources of capital, borrow under its line of credit or reevaluate its operating plans.

(3) Summary of Significant Accounting Policies-

(a) Revenue Recognition-

Revenue from product sales and related training is recognized upon customer acceptance and delivery of the product and training services performed provided that no significant contractual obligations remain. Customer acceptance is realized after either the customer pays for the software or upon receiving a document from the customer stating that the product has been accepted by the customer. Included in deferred revenues as of June 30, 2002 and December 31, 2001 is approximately $709,000 and $709,000, respectively, of products, which have been delivered and invoiced, but for which the Company has not been notified of customer acceptance and training services invoiced but not yet performed.

Revenues also include separate maintenance fees whereby the Company provides ongoing customer support and product upgrades. Such contracts are reflected as deferred revenue and amortized ratably over the term of the maintenance period ranging from 12 to 60 months, which begins after the expiration of free support included with the initial purchase of the software for some of the Company's products.

(b) Software Development Costs-

Software development costs incurred in the research and development of new software products and enhancements to existing software products are expensed as incurred until technological feasibility of the product is established. From the time technological feasibility is established until the product is released, all software costs are capitalized. In addition, capitalized software includes software acquired in the acquisition of a subsidiary. Capitalized costs are reported at the lower of unamortized costs or net realizable value. The costs are amortized over the greater of the amount computed using (a) the ratio that current gross revenues for the product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product. During the three and six months ended June 30, 2002 and 2001, the Company amortized the capital software costs straight-line over either three or five years.

Costs incurred up to technological feasibility are considered research and development costs. These costs are expensed as incurred. Research and

development costs were approximately $95,000 and $86,000 for the three months ended June 30, 2002 and 2001, respectively. Research and development costs were approximately $146,000 and $161,000 for the six months ended June 30, 2002 and 2001, respectively.

Computer software development costs capitalized in the three months ended June 30, 2002 and 2001 were approximately $336,000 and $300,000, respectively. Computer software development costs capitalized in the six months ended June 30, 2002 and 2001 were approximately $655,000 and $647,000, respectively. Amortization expense for the three months ended June 30, 2002 and 2001 of approximately $362,000 and $286,000, respectively, is included in cost of sales in the consolidated statements of operations. Amortization expense for the six months ended June 30, 2002 and 2001 was approximately $703,000 and $532,000, respectively.

(c) Goodwill and Other Intangibles-

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 31, 2001. Under the new rules goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to periodic impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The statement also requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill.

Effective January 1, 2002, the amortization of goodwill and intangible assets with indefinite lives was discontinued. The Company anticipates that the application of the nonamortization provisions will increase 2002 net income approximately $1,187,000 ($0.07 per diluted share) per year compared to fiscal 2001. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. The Company has not yet determined what effect these tests will have on net income and the financial position of the Company.

Goodwill consisting of excess of cost over fair value of the assets acquired in previous acquisitions was amortized on a straight-line basis over seven years for the three and six months ended June 30, 2001. Goodwill net of accumulated amortization expense was approximately $5,808,000 and $5,978,000 as of June 30, 2002 and December 31, 2001, respectively. Goodwill amortization for the three months ended June 30, 2002 and 2001 was approximately $0 and $295,000, respectively. Goodwill amortization for the six months ended June 30, 2002 and 2001 was approximately $0 and $595,000, respectively.

The purchase price allocation relating to the assets acquired in the January 31, 2000 acquisition of TekSoft, Inc. ("TekSoft") resulted in several intangible assets: $220,000 for Assembled Workforce, $550,000 for Trade Names and $600,000 for Distribution Network. The amortization of the Assembled Workforce was discontinued in 2002 in accordance with the Statements of Financial Accounting Standards No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets" effective for the fiscal years beginning after December 31, 2001. The amortization of the Assembled Workforce, which was provided utilizing the straight-line method over the estimated useful life of seven years for the three and six

months ended June 30, 2001, was discontinued as of January 1, 2002. The amortization for Distribution Network and Trade Names continues in 2002 and is provided utilizing the straight-line method over the estimated useful life of seven years and fifteen years, respectively. Total amortization expense relating to Assembled Workforce was approximately $0 and $8,000 for the three months ended June 30, 2002 and 2001, respectively. The total amortization expense relating to Assembled Workforce was approximately $0 and $16,000 for the six months ended June 30, 2002 and 2001, respectively. Total amortization expense relating to Distribution Network and Trade Names was approximately $31,000 for each of the three months ended June 30, 2002 and 2001 and $61,000 for each of the six months ended June 30, 2002 and 2001.

(4) Long-Lived Assets-

In August 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale and provides additional implementation guidance for assets to be held and used and assets to be disposed of other than by sale. There will be no financial implication related to the adoption of SFAS 144, and the guidance will be applied on a prospective basis. The Company adopted the statement effective January 1, 2002.

(5) Notes Receivable from Shareholder-

In March 2002, a shareholder paid the Company the outstanding note receivable and accrued interest.

(6) Notes Payable to Shareholders and Employees-

In June 2002, the Company issued a $150,000 demand note payable to two officers of the Company. The note has an interest rate of 8% and principle and interest are due sixty days after a written request for payment by the note holders. As security to the note holders, the Company agreed to issue 600,000 shares of its Common Stock in the event that the Company defaulted on the note.

In March 2002, approximately $80,700 in notes payables to former shareholders of TekSoft were renegotiated to interest only notes through December 31, 2003. The interest rate on the notes was reduced from 16.5% to a floating rate of prime plus 2.0%. The note holders have the option after January 1, 2003 to convert the note to a three-year note at a fixed rate of interest of prime plus 2.0% at the time of conversion. As of June 30, 2002, the balance of these notes was approximately $80,700 at an interest rate of 6.75%.

As of March 31, 2002, the Company had several notes payable and loans to the former shareholders and employees of TekSoft. The notes had interest rates of 16.5% and were payable monthly and matured at various dates through April 2002. These notes are secured by substantially all of TekSoft's property and equipment. One of the notes was paid in full in April 2002 and another was paid in full in May 2002. The balance of the remaining note as of June 30, 2002 was approximately $34,000 with the due date extended on a month-to-month basis.

In February 2002, the Company paid the remaining principal on a $5,000 non-

interest bearing demand note payable to one of its shareholders. The Company accrued interest expense on this note at 7% per year. Interest has not been paid since its inception and is accrued as of June 30, 2002.

(7) Debt-

In May 2002, the Company and its bank added an additional line of credit agreement, which provides for borrowings up to $100,000 through August 12, 2002 (See Note 10). The revolving line of credit is limited to a borrowing base calculated as a specific percentage of qualifying accounts receivable, property and equipment and net capitalized software. The interest rate for the revolving line of credit is at prime plus 1.5%. The debt facility is secured by all of the assets of the Company. Borrowings under this line of credit facility were $91,000 as of June 30, 2002.

In March 2002, the Company and its bank agreed to extend the maturity date on the $250,000 line of credit from March 13, 2002 to May 13, 2002. In May 2002, the bank further extended the maturity date to January 31, 2003. Borrowings under this line of credit facility were $250,000 as of June 30, 2002.

(8) Shareholders' Equity -

In June 2002, the Company offered and issued 14,113 shares of Company common stock, 14,113 Class A stock purchase warrants and 14,113 Class B stock purchase warrants as payment of $7,664 in professional services to a vendor. The warrants were issued with initial estimated values (based on Black-Scholes valuation model) ranging from $0.20 to $0.44 for each Class A warrant and from $0.23 to $0.48 for each Class B warrant and expire in 2005 and 2007, respectively. Each warrant represents the right to purchase one share of the Company's common stock at an exercise price ranging from $0.50 to $0.75 per share.

On January 31, 2000, the Company acquired TekSoft for 4,500,060 shares to the former shareholders of TekSoft. In addition, under the terms specified in the purchase agreement, the former share holders of TekSoft may receive up to 1,500,000 additional shares over the five years ending January 31, 2005 if net sales, as defined in the agreement, increases. During the six months ended June 30, 2002, an additional 72,991 shares were earned under this agreement at a value of $0.28 per share. An additional $20,437 was allocated to goodwill. As of June 30, 2002, 739,877 of the contingent shares have been earned and issued.

In May 2002, the Company changed its Preferred Stock from no par to a par value of $0.001 per share.

In April 2002, the Company offered and issued 250,000 units in private placements to an individual deemed financially capable of making the investment. Units include one share of Company common stock and one two-year Class D common stock purchase warrant and one three-year Class A common stock purchase warrant and expire in 2004 and 2005, respectively. The units were sold for $0.50 per unit. The exercise price for the Class D warrant was $0.65 per share. The exercise price for the Class A warrant was $0.85 per share. The Company estimated the value of the warrants to be $0.22 for each Class D warrant and $0.25 for each Class A warrant based on the Black-Scholes valuation model.

In March 2002, the Company offered and issued 150,000 units in a private placement to an officer of the Company. Units included one share of Company common stock and one three-year Class A common stock purchase

warrant and one five-year Class B common stock purchase warrant and expire in 2005 and 2007, respectively. The units sold for $0.50 per unit. The exercise price for the Class A warrant was $0.75 per share. The exercise price for the Class B warrant was $1.00 per share. The Company estimated the value of the warrants to be $0.21 for each Class A warrant and $0.23 for each Class B warrant based on the Black-Scholes valuation model.

In January 2002, the Company offered and issued 12,307 shares of Company common stock, 12,307 Class A stock purchase warrants and 12,307 Class B stock purchase warrants as payment of $12,307 in professional services to a vendor. The warrants were issued with initial estimated values (based on Black-Scholes valuation model) of $0.42 for each Class A warrant and $0.48 for each Class B warrant and expire in 2005 and 2007, respectively. Each warrant represents the right to purchase one share of the Company's common stock at an exercise price of $1.75 per share.

(9) Stock Option Plan-

In March 2002, the Board of Directors authorized 250,000 stock options for distribution in 2002 at an exercise price of $0.37 per share for the benefit of current employees with 50,000 reserved for new employees. The vesting period will be five years or less based on the years of service performed by the employee. The options will expire December 31, 2010.

In 2001, the Company granted 140,000 stock options to an independent contractor at an exercise price of $0.65 per share, and which vest over a 12-month period ending May 3, 2002. The options expire May 3, 2007. During the three months ended June 30, 2002 and 2001, the Company recorded legal and professional expenses for the options vesting during this period of $3,438 and $48,748, respectively. During the six months ended June 30, 2002 and 2001, the Company recorded legal and professional expenses of $8,512 and $48,748, respectively. As of June 30, 2002, all of the options were vested.

During the three and six months ended June 30, 2002, none of the stock options granted by the Company were exercised.

(10) Subsequent events-

Subsequent to June 30, 2002, the Company signed a $75,000 notes payable with two officers of the Company. The note has an interest rate of 8% and principle and interest are due sixty days after a written request for payment by the note holders. As security to the note holders, the Company agreed to issue 600,000 shares of its Common Stock in the event that the Company defaulted on the note.

Subsequent to June 30, 2002, the Company and the bank extended the maturity date on the $100,000 line of credit facility from August 12, 2002 to November 12, 2002.

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

OVERVIEW

The following discussion and analysis should be read in conjunction with the

Company's Consolidated Financial Statements and notes, thereto and the other financial information appearing elsewhere in this filing. In addition to historical information, the following discussion and other parts of this filing contain forward-looking information that involves risks and uncertainties. The Company's actual results could differ materially from those anticipated by such forward-looking information due to competitive factors, risks associated with the Company's plans and other information expressed or implied by these forward-looking statements. There may be other risks and circumstances that management is unable to predict. When used in this Quarterly Report, the words "believes", "expects", "intends", "plans", "anticipates", "estimates" and similar expressions are intended to identify forward looking statements, although there may be some forward-looking statements not accompanied by these expressions. All forward-looking statements are intended to be covered by the safe harbor created by Section 21E of the Securities Exchange Act of 1934.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2002 AND 2001

The fluctuations in the economy continue to negatively impact the investment decision-making processes of manufacturing driven businesses. In light of this fluctuating economy, the Company's net sales decreased from $1,465,000 for the three months ended June 30, 2001 to $1,282,000 for the same period in 2002 for a 13% decrease. In the case of the Company's estimating products that have lesser competition, sales have partially declined due to delays in the sale of its software products as potential buyers have pushed back the timing of their purchases in efforts to conserve cash or until economic conditions improve. While the same delays have occurred for the Company's computer-aided-design/computer-aided-manufacturing (CAD/CAM) software products, the Company also faces a significantly higher number of competitors vying for fewer sales opportunities. This competition for CAD/CAM sales has led to discounting off of list price. Deferred revenue decreased 9% from $1,936,000 as of March 31, 2002 to $1,763,000 as of June 30, 2002.

Cost of sales was $524,000 or 41% of net sales for the three months ended June 30, 2002 as compared to $458,000 or 31% for the same period in 2001. The gross margin percentage for the three months ended June 30, 2002 declined from the same period in 2001 mostly due to an increase in fixed capitalized software amortization expense for the Company's products and was further negatively impacted by a reduction in sales. The capitalized software amortization expense for the three months ended June 30, 2002 was $362,000 compared to $286,000 for the three months ended June 30, 2001. This increase is due to the Machine Shop Estimating 9.0 and 9.5, CAMWorks 2001, CAMWorks 2001 Plus and ProCAM II products for which the Company began amortizing capitalized costs after their product releases on various dates during or after the three months ended June 30, 2001, but before the beginning of the three months ended June 30, 2002. Many of the other costs recorded as cost of sales are fixed in nature as well.

Selling expenses decreased 21% to $461,000 for the three months ended June 30, 2002 as compared to $587,000 for the same period in 2001. Selling expenses as a percentage of net sales were 36% and 40% for the three months ended June 30, 2002 and 2001, respectively. The decline in selling expenses occurred largely due to reduced spending in advertising and promotional activities for the Company's products in 2002 as compared to 2001. The advertising reduction was made due to the Company's decision to direct its resources to developing its product offerings. Also contributing to the reduction was the decline in the economy causing sales to decline, which tightened cash flows and restricted spending.

Total research and development expense was $95,000 and $86,000 for the three months ended June 30, 2002 and 2001, respectively.

Goodwill and other intangible amortization expenses were $31,000 and $334,000 for the three months ended June 30, 2002 and 2001, respectively. The decrease is attributed to the Company implementing the Financial Accounting Standards Board's Statements of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 31, 2001. Under the new rules goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to periodic impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The amortization expense for goodwill was $0 and $295,000 for the three months ended June 30, 2002 and 2001, respectively. The amortization expense for other intangibles was $31,000 and $38,000 for the three months ended June 30, 2002 and 2001, respectively. The decrease in amortization of other intangibles is related to the Assembled Workforce acquired as part of the TekSoft acquisition, which under the new accounting rules has an indefinite life and therefore is no longer amortized.

General and administrative expenses decreased to $470,000 for the three months ended June 30, 2002 compared to $545,000 for the same period in 2001. General and administrative expenses as a percentage of net sales were 37% of net sales for the three months ended June 30, 2002 as compared to 37% for 2001. The dollar decrease occurred mostly due to reductions in professional and legal expenses. The Company recorded $42,000 for the three months ended June 30, 2001 for a professional services agreement for consulting services as compared to the $0 for the three months ended June 30, 2002. The Company issued 300,000 shares of common stock in 2000 for these services at a value of $2.00 per share. In February 2001, this agreement was extended an additional nine months to February 2002, which reduced the monthly amortization related to this agreement from $50,000 to $14,000. In addition, significant legal and professional expenses were incurred during the three months ended June 30, 2001 associated with the Company's follow-on expenses for the 10-SB and various other SEC filings. The same level of professional and legal expenses was not incurred during the three months ended June 30, 2002 thus contributing to the expense decrease.

Operating expenses including goodwill and other intangible asset amortization were $1,056,000 for the three months ended June 30, 2002 as compared to $1,552,000 for the same period in 2001.

Interest expense increased from $29,000 for the three months ended June 30, 2001 to $42,000 for three months ended June 30, 2002. The increase is attributed to additional debt incurred by the Company that was used to finance the development of the Company's new products released in 2001and continued during the six months ended June 30, 2002 and to fund losses that the Company incurred for the same period. The Company remains committed to product development and has borrowed money to support this development. The Company also retained employees that it believed necessary to support growth that it continues to expect for the three months ending December 31, 2002. The Company continued to benefit from lower interest rates during the three months ended June 30, 2002 as compared to interest rates in the same period in 2001. The Company had a pre-tax loss of $340,000 for the three months ended June 30, 2002 as compared to the $575,000 pre-tax loss for the three months ended June 30, 2001.

The net loss after the tax benefit was $247,000 and $488,000 for the three months ended June 30, 2002 and 2001, respectively.

SIX MONTHS ENDED JUNE 30, 2002 AND 2001

The comments made in the previous "Three Months Ended June 30, 2002 and 2001" section relative to the impact that the economy had on sales are equally appropriate relative to the Company's sale for the six months ended June 30, 2002 and 2001. The Company's net sales decreased from $2,736,000 for the six

months ended June 30, 2001 to $2,514,000 for the same period in 2002 for an 8% decrease. Deferred revenue decreased 7% from $1,890,000 as of December 31, 2001 to $1,763,000 as of June 30, 2002.

Cost of sales was $1,049,000 or 42% of net sales for the six months ended June 30, 2002 as compared to $871,000 or 32% for the same period in 2001. The gross margin percentage for the six months ended June 30, 2002 declined from the same period in 2001 mostly due to an increase in fixed capitalized software amortization expense for the Company's products and was further impacted by a reduction in sales. The capitalized software amortization expense for the six months ended June 30, 2002 was $703,000 compared to $532,000 for the six months ended June 30, 2001. This increase is due to the Machine Shop Estimating 9.0 and 9.5, CAMWorks 2001, CAMWorks 2001 Plus and ProCAM II products for which the Company began amortizing capitalized costs after their product releases on various dates during or after the six months ended June 30, 2001, but before the beginning of the six months ended June 30, 2002. Many of the other costs recorded as cost of sales are fixed in nature as well.

Selling expenses decreased 19% to $944,000 for the six months ended June 30, 2002 as compared to $1,166,000 for the same period in 2001. Selling expenses as a percentage of net sales were 38% and 43% for the six months ended June 30, 2002 and 2001, respectively. The decline in selling expenses occurred largely due to reduced spending in advertising and promotional activities for the Company's products in 2002 as compared to 2001. The advertising reduction was made due to the Company's decision to direct its resources to developing its product offerings. Also contributing to the reduction was the decline in the economy causing sales to decline, which tightened cash flows and restricted spending.

Total research and development expense was $146,000 and $161,000 for the six months ended June 30, 2002 and 2001, respectively.

Goodwill and other intangible amortization expenses were $61,000 and $672,000 for the six months ended June 30, 2002 and 2001, respectively. The decrease is attributed to the Company implementing the Financial Accounting Standards Board's Statements of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 31, 2001. Under the new rules goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to periodic impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The amortization expense for goodwill was $0 and $595,000 for the six months ended June 30, 2002 and 2001, respectively. The amortization expense for other intangibles was $61,000 and $77,000 for the six months ended June 30, 2002 and 2001, respectively. The decrease in amortization of other intangibles is related to the Assembled Workforce acquired as part of the TekSoft acquisition, which under the new accounting rules has an indefinite life and therefore is no longer amortized.

General and administrative expenses decreased to $924,000 for the six months ended June 30, 2002 compared to $1,127,000 for the same period in 2001. General and administrative expenses as a percentage of net sales decreased to 37% of net sales for the six months ended June 30, 2002 as compared to 41% for 2001. The decrease occurred mostly due to reductions in professional and legal expenses. The Company recorded $21,000 for the six months ended June 30, 2002 for a professional services agreement for consulting services as compared to the $120,000 for the six months ended June 30, 2001. This represents a decrease of $99,000 in general and administrative expenses from the six months ended June 30, 2001. The Company issued 300,000 shares of common stock in 2000 for these services at a value of $2.00 per share. In February 2001, this agreement was extended an additional nine months to February 2002, which reduced the monthly

amortization related to this agreement from $50,000 to $14,000. In addition, significant legal and professional expenses were incurred during the six months ended June 30, 2001 associated with the Company's follow-on expenses for the 10-SB and various other SEC filings. The same level of professional and legal expenses was not incurred during the six months ended June 30, 2002 thus contributing to the expense decrease.

Operating expenses including goodwill and other intangible asset amortization were $2,076,000 for the six months ended June 30, 2002 as compared to $3,127,000 for the same period in 2001.

Interest expense increased from $58,000 for the six months ended June 30, 2001 to $73,000 for six months ended June 30, 2002. The increase is attributed to additional debt incurred by the Company that was used to finance the development of the Company's new products released in 2001and continued during the six months ended June 30, 2002 and to fund losses that the Company incurred for the same period. The Company remains committed to product development and has borrowed money to support this development. The Company also retained employees that it believed necessary to support growth that it continues to expect in the three months ending December 31, 2002. The Company continues to benefit from lower interest rates during the six months ended June 30, 2002 as compared to interest rates in the same period in 2001. The Company had a pre-tax loss of $684,000 for the six months ended June 30, 2002 as compared to the $1,319,000 pre-tax loss for the six months ended June 30, 2001.

The net loss after the tax benefit was $476,000 and $1,100,000 for the three months ended June 30, 2002 and 2001, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred losses over the last three years and has negative working capital. Based upon its current plans, the Company believes it has the ability to raise sufficient equity and debt funds to meet its operating expenses and capital requirements through fiscal year 2002 and into fiscal year 2003. There is no assurance that such additional funds will be available on acceptable terms, if at all. Should the plans contemplated by management not be consummated, the Company may have to seek alternative sources of capital, borrow under its line of credit or reevaluate its operating plans.

The Company's cash position as of June 30, 2002 was approximately $74,000 as compared to $77,000 as of December 31, 2001. During the six months ended June 30, 2002, net cash provided by operating activities was $76,000 versus $243,000 for the six months ended June 30, 2001. The relatively low amount of cash flow from operations for the six months ended June 30, 2002 is largely related to reduced sales caused by the recessionary period experienced by the Company and the manufacturing marketplace and the Company not reducing spending to offset the sales decline. The Company incurred higher than planned losses as a result. The Company decided to retain all of its employees because it believed it necessary in order to handle its expected sales growth in 2002 as well as continue developing the next generation of manufacturing software. Cash flows used in investing activities were $666,000 and $675,000 for the six months ended June 30, 2002 and 2001, respectively. The Company invested $655,000 in capitalized software development costs and $11,000 for property and equipment and other assets for the six months ended June 30, 2002 as compared to $647,000 and $28,000, respectively, for the same period in 2001. The Company had positive cash flows from financing activities of $587,000 and $321,000 for the six months ended June 30, 2002 and 2001, respectively. The financing activities for the six months ended June 30, 2002 were primarily comprised of positive inflows of $221,000 on the line of credit facility, $233,000 of common stock proceeds, $150,000 of notes payable to shareholders and $49,000 shareholder

payment of notes receivable, which were partially offset by $66,000 of payments on long-term debt, notes payables to shareholders and capital lease obligations.

The Company's working capital as of June 30, 2002 was a negative $1,673,000 as compared to the negative working capital of $1,650,000 as of December 31, 2001. The $23,000 decrease in working capital from the December 31, 2001 balance is largely attributed to the unfavorable effects of a $221,000 increase in the current portion of the line of credit, a $24,000 increase in accrued commissions and a $58,000 increase in the current portion of notes payable to shareholders, which were partially offset by the favorable effects of a $37,000 increase in net accounts receivables, a $162,000 increase in prepaid and other current assets and a $127,000 reduction in the deferred revenue. The short-term line of credit facility increase and additional $150,000 notes payable to shareholders is largely due to lower sales and slower cash collections due to the recession experienced during the six months ended June 30, 2002. The loss resulted in a decline of working capital and adversely affected the Company's ability to pay its vendors on a timely basis.

The Company had total interest bearing debt of $2,502,000 and $2,197,000 as of June 30, 2002 and December 31, 2001, respectively, consisting of current and long-term portions of a line of credit, term debt, capital leases and notes payable to shareholders. This represents an increase of $305,000 during the six months ended June 30, 2002, which was made up of a $221,000 increase in the Company's line of credit facility and $150,000 of notes payable to shareholders, which was partially offset by a $50,000 reduction in term debt, a $12,000 reduction in notes payables to shareholders and a $4,000 reduction in capital leases. As of June 30, 2002, the Company had borrowings of $1,099,950 and $341,000 against its $1,100,000 long-term line of credit and $350,000 short-term line of credit facilities, respectively. Subsequent to June 30, 2002, the Company and its bank agreed to extend the maturity date of the additional $100,000 line of credit agreement from August 12, 2002 to November 12, 2002. Subsequent to June 30, 2002, the Company signed a $75,000 notes payable with two officers of the Company at an interest rate of 8% that is due sixty days upon written notice. As security to the note holders, the Company will issue 300,000 shares to the note holders in the event that the Company is in default on the note. The Company intends on seeking additional debt and equity financing to supplement its cash needs. However, there are no assurances that the bank or other lending or equity sources will provide additional capital financing.

Shareholder's Equity decreased to $8,488,000 as of June 30, 2002 compared to $8,705,000 as of December 31, 2001. The decrease in Shareholder's Equity for the six months ended June 30, 2002 is largely attributed to a $476,000 net loss and $2,000 of dividends accrued on preferred stock. This decrease was partially offset by $233,000 of proceeds from the issuance of common stock for cash and services, $20,000 of common stock for contingent shares earned and $9,000 of stock options issued.

The Company invested $655,000 in capitalized software for the six months ended June 30, 2002. This compares to $647,000 for the six months ended June 30, 2001. The Company believes that the development work done in 2001 and the six months ended June 30, 2002 related to automatic feature recognition as found in its CAMWorks and ProCAM II CAD/CAM software and the integration of this technology with its estimating software will provide significant revenue opportunities in 2002 and 2003. Offsetting $9,000 of property and equipment purchases for the six months ended June 30, 2002 was a disposal of a partially developed customer relationship management software package that has a book value of approximately $42,000. The Company determined that the cost to complete the development and implementation of this package was significantly higher than planned and decided that it would seek other alternatives.

The Company intends on financing future expenditures for property and equipment, capitalized software and sales growth using capital provided by sales of common

stock through private placement activities. Capital is required in order to supplement lower than expected internally generated cash flows from operations due to the recessionary period experienced during the six months ended June 30, 2002 and the year ended December 31, 2001 and as projected for the third quarter of 2002.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company may be subject to contingent liabilities resulting from litigation and claims incident to the ordinary course of business. As of the date of this report, the Company does not believe that it is subject to any legal proceedings the probable resolution of which would have material adverse effect on the business or financial condition of the Company.

ITEM 2. CHANGES IN SECURITIES

In June 2002, the Company offered and issued 14,113 shares of Company common stock, 14,113 Class A stock purchase warrants and 14,113 Class B stock purchase warrants as payment of $7,664 in professional services to a vendor. The warrants were issued with initial estimated values (based on Black-Scholes valuation model) ranging from $0.20 to $0.44 for each Class A warrant and from $0.23 to $0.48 for each Class B warrant and expire in 2005 and 2007, respectively. Each warrant represents the right to purchase one share of the Company's common stock at an exercise price ranging from $0.50 to $0.75 per share.

On January 31, 2000, the Company acquired TekSoft for 4,500,060 shares to the former shareholders of TekSoft. In addition, under the terms specified in the purchase agreement, the former share holders of TekSoft may receive up to 1,500,000 additional shares over the five years ending January 31, 2005 if net sales, as defined in the agreement, increases. During the three months ended June 30, 2002, an additional 72,991 shares were earned under this agreement at a value of $0.28 per share. An additional $20,437 was allocated to goodwill. As of June 30, 2002, 739,877 of the contingent shares have been earned and issued.

In April 2002, the Company offered and issued 250,000 units in private placements to an individual deemed financially capable of making the investment. Units include one share of Company common stock and one two-year Class D common stock purchase warrant and one three-year Class A common stock purchase warrant and expire in 2004 and 2005, respectively. The units were sold for $0.50 per unit. The exercise price for the Class D warrant was $0.65 per share. The exercise price for the Class A warrant was $0.85 per share. The Company estimated the value of the warrants to be $0.22 for each Class D warrant and $0.25 for each Class A warrant based on the Black-Scholes model.

The Company believes that it has satisfied the exemption from the securities registration requirement provided by Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder for all of the above-described transactions.

In May 2002, the Company changed its Preferred Stock from no par value to a par value of $0.001 per share.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company was not in default with regards to its debt facilities.

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

On May 1, 2002, shareholders holding a majority of the voting power of all shareholders and all of the directors of the Company adopted resolutions by action by consent in writing in lieu of meeting to ratify and adopt a Certificate of Amendment to Articles of Incorporation and a Certificate of Designation, Powers, Preferences and Rights of the Series of Preferred Stock of OnCourse Technologies, Inc. The Certificate of Amendment to Articles of Incorporation and Certificate of Designation, Powers, Preferences and Rights of the Series of Preferred Stock were filed as Exhibits 3(d) and 3(e) of the Company's 10-KSB filed with the Securities and Exchange Commission on May 14, 2002.

ITEM 5. OTHER INFORMATION

None Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS REQUIRED BY ITEM 601 OF REGULATION S-B

Exhibit No.	Page Number	Description
10(a)	19	Business Note dated May 13, 2002. Extends the maturity date of Business Note dated March 13, 2002.
10(b)	21	Business Note dated May 14, 2002. Additional line of credit facility.

(b) REPORTS ON FORM 8-K

The Company filed an 8-K with the Securities and Exchange Commission on June 12, 2002, and as amended on June 21, 2002, to report under Item 4. "Changes in the Registrant's Certifying Accountant", that the Company discontinued its engagement of Arthur Andersen LLP as its auditors. The Company also reported that is was still in the process of retaining a new independent public accountant as of the date of that report.

SIGNATURES

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

OnCourse Technologies, Inc.
a Nevada Corporation

By: /s/ Bernard A. Woods III Date: August 14, 2002

Bernard A. Woods III, CEO

By: /s/ Charles W. Beyer Date: August 14, 2002

Charles W. Beyer, President

By: /s/ William C. Brown Date: August 14, 2002

William C. Brown, CFO