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ILINC COMMUNICATIONS INC

Form 10-K

June 29, 2006

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

FORM 10-K

For Annual and Transition Reports
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

(MARK ONE)

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED MARCH 31, 2006.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.
Commission file number \_\_\_\_\_

ILINC COMMUNICATIONS, INC.
(exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

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

2999 N. 44TH STREET, SUITE 650
PHOENIX, ARIZONA 85018
(Address of principal executive offices)
(Registrant's telephone number, including area code) (602) 952-1200

Securities registered pursuant to
Section 12(b) of the Act
COMMON, \$0.001 PAR VALUE PER SHARE

Name of Exchange on Which Registered
AMERICAN STOCK EXCHANGE

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

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes ( X ) No ( )

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

Indicate by check mark whether the registrant is an accelerated filer
(as defined in Exchange Act Rule 12b-2). Yes ( ) No (X)

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Indicate by check mark whether the registrant is a small company (as defined in Rule 12b-2 of the Exchange Act). Yes ( ) No (X)

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold on the American Stock Exchange as of March 31, 2006, was approximately 8,933,603 using a closing price of \$0.41 per share.

The number of shares of common stock of the registrant, par value \$0.001 per share, outstanding at June 26, 2006 was 32,909,703, net of shares held in treasury.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement relating to the Annual Meeting of Stockholders of the registrant to be held on August 18, 2006 are incorporated by reference into Part III of this Report.

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### FORWARD-LOOKING STATEMENTS

Unless the context requires otherwise, references in this document to "iLinc Communications," "iLinc" the "Company," "we," "us," and "our" refer to iLinc Communications, Inc.

Statements contained in this Annual Report on Form 10-K that involve words like "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These are statements that relate to future periods and include, but are not limited to, statements as to our ability to: sell our products and services; improve the quality of our software; derive overall benefits of our products and services; introduce new products and versions of our existing products; sustain and increase revenue from existing products; integrate current and emerging technologies into our product offerings; control our expenses including those related to sales and marketing, research and development, and general and administrative expenses; control changes in our customer base; support our customers and provide sufficient technological infrastructure; obtain sales or increase revenues; impact the results of legal proceedings; control and implement changes in our employee headcount; obtain sufficient cash flow; manage liquidity and capital resources; realize positive cash flow from operations; or realize net earnings.

Such forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from anticipated results. These risks and uncertainties include, but are not limited to, our dependence on our products or services, market demand for our products and services, our ability to attract and retain customers and channel partners, our ability to expand our technological infrastructure to meet the demand from our customers, our ability to recruit and retain qualified employees, the ability of channel partners to successfully resell our products, the status of the overall economy, the strength of competitive offerings, the pricing pressures created by market forces, and the risks discussed herein (see "Managements Discussion and Analysis of Financial Condition and Results of Operations"). All forward-looking statements included in this report are based on information available to us as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein, to reflect any change in our expectations or in events, conditions or circumstances on which any such statement is based. Readers are urged to carefully review and consider the various disclosures made in this report and in our other reports filed with the SEC that attempt to advise interested parties of certain risks and factors that may affect our business. Our reports are available free of charge as soon as reasonably practicable after such material is electronically filed with the SEC and may be obtained through our Web site located at [www.ilinc.com](http://www.ilinc.com).

iLinc, iLinc Communications, iLinc Suite, MeetingLinc, LearnLinc, ConferenceLinc, SupportLinc, iLinc On-Demand, and their respective logo are trademarks or registered trademarks of iLinc Communications, Inc. All other company names and products may be trademarks of their respective companies.

PART I

ITEM 1. BUSINESS

COMPANY OVERVIEW

Headquartered in Phoenix, Arizona, iLinc Communications, Inc. is a leading provider of Web conferencing, audio conferencing and collaboration software and services. We develop and sell software that provides real-time collaboration and training using Web-based tools. Our four-product iLinc Suite, comprised of LearnLinc, MeetingLinc, ConferenceLinc, and SupportLinc, is an award winning virtual classroom, Web conferencing and collaboration suite of software. With our Web collaboration, conferencing and virtual classroom products, we provide simple, reliable and cost-effective tools for remote presentations, meetings and online events. Our software is based on a proprietary architecture and code that finds its origins as far back as 1994, in what we believe to be the beginnings of the Web collaboration industry. Versions of the iLinc Suite have been translated into six languages, and it is currently available in version 8.01. Our customers may choose from several different pricing and licensing options for the iLinc Suite depending upon their needs. Uses for our four-product suite of Web collaboration software include online business meetings, sales presentations, training sessions, product demonstrations and technical support assistance. We sell our software solutions to large and medium-sized corporations inside and outside of the Fortune 1000. We market our products using a direct sales force and a distribution channel consisting of agents and value added resellers. We allow customers to choose between purchasing a perpetual license and subscribing to a term license, providing for flexibility in pricing and payment methods. Our revenues are a mixture of high margin perpetual licenses of software and monthly recurring revenues from annual maintenance, hosting and support agreements, and other products and services.

PRODUCTS AND SERVICES

WEB CONFERENCING AND WEB COLLABORATION

The iLinc Suite is a four-product suite of software that addresses the most common business collaboration needs.

LearnLinc is an Internet-based software that is designed for training and education of remote students. With LearnLinc, instructors and students can collaborate and learn remotely providing an enhanced learning environment that replicates and surpasses traditional instructor-led classes. Instructors can create courses and classes, add varied agenda items, enroll students, deliver live instruction, and deliver content that includes audio, video, and interactive multimedia. In combination with TestLinc, LearnLinc permits users to administer comprehensive tests, organize multiple simultaneous breakout sessions, and record, edit, play back, and archive entire sessions for future use.

MeetingLinc is an online collaboration software designed to facilitate the sharing of documents, PowerPoint(TM) presentations, graphics, and applications between meeting participants without leaving their desks. MeetingLinc allows business professionals, government employees, and educators to communicate more effectively and economically through interactive online meetings using Voice-over IP technology to avoid the expense of travel and long

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distance charges. MeetingLinc allows remote participants to give presentations, demonstrate their products and services, annotate on virtual whiteboards, edit documents simultaneously, and take meeting participants on a Web tour. Like all of the Web collaboration products in the Suite, MeetingLinc includes integrated voice and video conferencing services.

ConferenceLinc is a presentation software designed to deliver the message in a one-to-many format providing professional management of Web conferencing events. ConferenceLinc manages events such as earnings announcements, press briefings, new product announcements, corporate internal mass communications and external marketing events. ConferenceLinc is built on the MeetingLinc software platform and code to combine the best interactive features with an easy-to-use interface providing meaningful and measurable results to presenters and participants alike. Its design includes features that take the hassle out of planning and supporting a hosted Web seminar. ConferenceLinc includes automatic email invitations, "one-click join" capabilities, online confirmations, update notifications, and customized attendee registration. With ConferenceLinc, presenters may not only present content, but may also gain audience feedback using real-time polling, live chat, question and answer sessions, and post-event assessments. The entire presentation is easily recordable for viewing offline and review after the show with the recorder capturing the content and the audio, video, and participant feedback.

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SupportLinc is an online technical support and customer sales support software designed to give customer service organizations the ability to provide remote hands-on support for products, systems, or software applications. SupportLinc manages the support call volume and enhances the effectiveness of traditional telephone-based customer support systems. SupportLinc's custom interface is designed to be simple to use so as to improve the interaction and level of support for both customers and their technical support agents.

Our Web collaboration software is sold on a perpetual license or periodic license basis. A customer may choose to acquire a one-time perpetual license (the "Purchase Model") or may rent our software on an annual basis on either a per seat or per minute basis (the "ASP Model"). Should they choose to acquire the software using the Purchase Model, then they may either elect to host our software behind their own firewall or they may choose to have iLinc host it for them, depending upon their preferences, budget and IT capabilities. Customers who select the Purchase Model, whether hosted by iLinc or the customer, may also subscribe for ongoing customer support and maintenance services, using a support and maintenance contract with terms from one to five years. iLinc launched the Enterprise Unlimited perpetual licensing model during fiscal 2006, which enables customers to pay a one-time up-front fee for unlimited, organization-wide Web conferencing. The maintenance and support fee charged is between 15% and 18% of the purchase license fee that is paid for the perpetual licenses and varies depending upon the length of the support agreement. If a customer chooses to have iLinc host their Purchase Model licenses, then the customer is charged a hosting fee equal to 10% of the purchase license fee that was paid for the perpetual license. Those customers who qualify for the iLinc Enterprise Unlimited site license may subscribe to an unlimited use license. The initial iLinc Enterprise Unlimited license fee is determined based upon the number of employees within the customer's organization, or other factors. The annual maintenance and support fees and hosting fees associated with an iLinc Enterprise Unlimited license are then

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based upon a fixed rate per-seat license that is active on each annual anniversary of the iLinc Enterprise Unlimited license agreement. Customers may expand the number of active seats available to them at any time with a corresponding increase in annual maintenance and hosting fees being charged.

Customers choosing the ASP Model pay per seat (concurrent connection) on either a per month or per year basis depending upon the length and term of the subscription agreement. Hosting and maintenance are included as a part of the monthly or annual rental fees. Customers may also obtain Web conferencing and audio conferencing on a per minute basis using the iLinc On-Demand product. Those choosing the iLinc On-Demand product pay on a monthly basis typically without contractual commitment.

### AUDIO CONFERENCING

Through its acquisition of substantially all of the assets of Glyphics Communications, Inc. ("Glyphics") in June 2004, the Company also delivers comprehensive audio conferencing solutions that help businesses provide virtual meetings, corporate events, distance learning programs, and daily conference calls. Our audio conferencing offering includes a wide array of services and products that include the following:

- o AUDIO ON-DEMAND (NO RESERVATIONS NEEDED): With pre-established calling accounts for each user, you can create or participate in conference calls with no advance notice, 24/7;
- o RESERVED AUTOMATED: The solution for recurring calls, each participant has a permanent number and passcode;
- o OPERATOR ASSISTED: For important calls, this service includes an iLinc conference operator to host, monitor, and coordinate the call; and,
- o ONLINE SEMINARS: High quality event services that include invitation and user management, scripting, presentation preparation, post show distribution, and dedicated operator assistance from iLinc.

Customers may purchase our audio conferencing products and services, without an annual contract commitment, on a monthly recurring usage basis, and often subscribe for a fixed per-minute rate.

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### OTHER PRODUCTS AND SERVICES

In addition to the iLinc Suite of products and services, we offer to our customers an array of e-Learning and training products and services. We offer training software products that, like iLinc, promote online collaboration with products that integrate with our LearnLinc software. These include: TestLinc which is an assessment and quizzing tool that allows for formal testing and evaluation of students and i-Canvas which is a training content development software that allows non-technical training professionals to create Web-based training courses without programming. i-Canvas is sold on an individual user perpetual license basis. We offer custom content development services through a subcontractor relationship. We also offer a library of online courses focused upon the training of executives on essential business topics. Our off-the-shelf

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online library of content includes an online mini-MBA program co-developed with the Tuck School of Business at Dartmouth College.

### MARKETING

Marketing has developed a plan that incorporates public relations, tradeshows, Web events, Web marketing initiatives, and direct marketing (mail and email) efforts messaged in campaigns that speak to the needs of our specific target markets. The goal of our marketing strategy is to drive new business into our customer base and then cross sell our synergistic Web, audio, and event product and drive usage of all products to increase the propensity for our customers to make additional purchases.

### DIRECT SALES

The direct sales team is organized by geographic territory and is broken down into distinct groups: Direct Sales sells to organizations that are not yet iLinc customers; Enterprise Sales sells into large existing accounts; and our Event Sales team sells our High-Touch Event Services offering to all sizes of organizations. All of these groups focus their outbound activity on our specific vertical markets of financial services, high technology, and professional service organizations. We believe that the target vertical markets have a commonality of meeting four criteria: we have an established customer base in the market; our product feature set is specifically appropriate to the needs of the market; analysts have identified a need within that market for increasing use of Web and audio conferencing; and we believe that we have the potential to capture a portion of the share of such markets.

### INDIRECT SALES

iLinc has formed relationships with several organizations that market and sell our products and services through their sales distribution channels. The relationships can be categorized into those that act as agents which sell on behalf of iLinc and value added resellers (VAR's) that actively sell our products and provide product support typically to their own existing customer base. As of March 31, 2006, we had over 30 organizations selling our products providing indirect sales in North America and in countries outside North America, including the United Kingdom, Spain, Italy, Germany, Colombia, and Japan. Our value added resellers execute agreements to resell our products to their customers through direct sales and in some cases through integration of our products into their products or service offerings. Our distribution agreements typically have terms of one to three years and are automatically renewed for an additional like term unless either party terminates the agreement for breach or other financial reasons. In most of these agreements, the VAR licenses the product from us and resells the product to its customers. Under those VAR agreements, we record only the amount paid to us by the VAR as revenue and recognize revenue when all revenue recognition criteria have been met.

### CUSTOMERS

Approximately 3,000 corporate, higher education, and government customers use iLinc inside of their organizations for their Web and audio conferencing needs, including 25 Fortune 500 companies. Our corporate customer list includes notable customers in financial services such as Aetna, Allianz Life, Guardian Life Insurance, JPMorgan Chase, St. Paul Travelers Insurance and Citigroup; high tech, with customers such as California Software Corporation, Qualcomm, Sabre Holdings, Inc., Sony and Xerox Corporation; and professional services organizations, such as EDS, Greenberg Traurig, and McKinsey & Company. We have more than 80 higher education organizations including Benedictine University, Creighton University, Kent State University, University of New Hampshire, National University, The State Universities of New York, Tulane and Villanova University. iLinc also has an impressive list of state and Federal

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Government clients such as the State of Louisiana, the State of Oregon, the U.S. Army, U.S. Navy, the Coast Guard and the Department of Defense. Our reach includes customers both within the United States, Canada, Mexico, and outside North America.

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### AWARDS AND ACKNOWLEDGEMENTS

We are proud of the recognition received by the Company from leading industry experts including Forrester Research and Front & Sullivan. In June 2006, Forrester Research, an independent research firm, names iLinc as a "Strong Performer" in their report titled "The Forrester Wave™: Web Conferencing Q2 2006." In January 2006, the Company received the 2006 Excellence in Technology Award from industry analyst Frost & Sullivan in which the firm noted that iLinc delivers "...breakthrough technology that addresses real issues facing organizations deploying Web conferencing enterprise-wide." Together with our predecessors, we have been honored with more than 60 awards from notable authorities such as the American Society for Training and Development ("ASTD"), analyst Brandon Hall, and e-Learning Magazine, which selected iLinc as a Best of e-Learning company in 2005. The list of awards includes four National Telly Awards, six Software Service Provider of the Year Awards, and two Gold Medals from e-Learning authority Brandon Hall. Software from our organization has taken first place in two Software Shootouts held at the Online Learning conference in which e-Learning professionals decided which products were best-of-class based on functionality and ease of use. Notably, in 2002 our Web conferencing software was voted first place at the synchronous software shootout held at Online Learning Expo besting industry leaders WebEx, Centra and PlaceWare (purchased by Microsoft and now Microsoft Live Meeting). In late 2005, Web conferencing Analysts Wainhouse Research noted "iLinc offers a licensing model that supports organizations that have made a strategic commitment to Web conferencing," and in a May 2005 report iLinc was noted to be the "1st virtual classroom product & still a technology leader" by the analyst firm Bersin and Associates. We continue to receive recognition from analysts and notable experts as we maintain a leadership position in the conferencing and collaboration market.

### TECHNOLOGY & INTELLECTUAL PROPERTY

Our existing technology and intellectual property were originally developed by organizations that we have acquired, including the assets from the Mentergy and Glyphics transactions, (see public filings for further description of those transactions). We host our software and provide Internet connectivity from our dedicated servers in Los Angeles, California; Phoenix, Arizona; Springville, Utah; and Troy, New York. We maintain a network infrastructure on-premises in our Phoenix, Springville, and Troy offices, and through leased data centers in Los Angeles. Our data network is redundant in design and is secure from unauthorized access. Our Web collaboration software products are client/server applications that operate in a Windows environment. Our hosted Web conferencing product utilizes this Windows environment but also operates an extended front-end system that operates in a Linux environment using an Oracle database, with redundant load balancing hardware to ensure maximum system availability.

### RESEARCH & DEVELOPMENT

The Company invested a substantial portion of its working capital and resources in the continued development of its software and technologies. We



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employ full-time engineers, programmers and developers that are located in Troy, New York and Phoenix, Arizona, who are constantly focused on developing new features and enhancements to our existing software offering and expanding that offering with new products and services. The primary focus of our research and development efforts is on improving the functionality and performance of the iLinc Suite as well as developing new features that meet changing market demands. In the 2005 fiscal year, we invested over \$1.5 million in direct and indirect research and development activities and \$1.4 million in the 2006 fiscal year. We expect to continue to make significant investments in research and development for the next several years.

### CUSTOMER SERVICE

We employ full-time Tier 1 and Tier 2 customer support and technical support representatives, who are located in Troy, New York and Springville, Utah, and are constantly focused on the delivery of high-quality service and support to our existing customer base and channel partners. We offer varying levels of support, depending upon the maintenance and support agreement executed by the customer, that include telephone support through a toll-free number and an email support request system. We also offer access to self-help information that includes a database of frequently asked questions, quick reference and

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advanced end-user guides, online tutorials, and access to a real-time searchable knowledge database. Our response times vary depending upon the issue, but the vast majority of our customer support questions are addressed during the initial support call. Customer issues and support tickets are tracked within our CRM database for use by our technical support teams and customers searching the knowledge database.

### COMPETITION

We believe that our current Web conferencing software has specific and unique characteristics that match the needs of our customers and target markets. The Company intends to leverage these strengths as well as direct product development efforts to continue to enhance the software to meet the specific needs of these markets.

With our emphasis on our Web collaboration four-product suite, we face competition from various Web conferencing and collaboration software companies including WebEx, Microsoft Live Meeting, and Centra, as well as providers of similar software such as Interwise and Breeze. The Web collaboration, virtual classroom, and Web conferencing industry continues to change and evolve rapidly, and we expect continued consolidation within the industry. Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, and other resources and greater name recognition than we have. We have identified what we believe to be the principal competitive factors in our markets, including: ease of use, breadth and depth of feature set, quality and reliability of products, pricing, security, and our ability to develop and support software license sales. Although we believe our products compete favorably, we may not be able to maintain a competitive position against current and potential competitors, especially those with greater financial resources.

### ACQUISITIONS

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As a part of our external growth strategy, we acquired the Web conferencing, audio conferencing, and several e-Learning companies providing the Company with expertise, tangible and intangible assets, technology, customer base, recurring revenues, and a global VAR network.

November 2002 - Mentergy, Inc. ("Mentergy"), a provider of virtual classroom software. We acquired from Mentergy all assets associated with LearnLinc and TestLinc software, an existing customer base, a VAR network and a recurring maintenance revenue stream.

June 2004 - Glyphics Communications, Inc., ("Glyphics") a provider of comprehensive audio conferencing products and services. On June 3, 2004, the Company executed an agreement to acquire substantially all of the assets of and assume certain liabilities of Glyphics Communications, Inc., a Utah based private company. The acquisition had a stated effective date of June 1, 2004 and was fully consummated on June 14, 2004. The purchase price was \$5.349 million. The purchase price was paid with the assumption of \$2.466 million in specific liabilities, with the balance paid using the Company's common stock, which included the issuance of 2,820,355 shares valued at \$0.98 per share upon execution of the agreement, and 308,133 shares valued at \$0.39 per share upon release of escrow pending the settlement of certain acquisition contingencies. Subsequent to March 31, 2006, 704,839 shares were released from escrow related to the acquisition of Glyphics. Of that amount, 396,706 shares were returned to iLinc Communications due to the Company assuming obligations of \$377,815 greater than scheduled in the purchase agreement. The remaining 308,133 shares were issued to the Glyphics shareholders at \$0.39 per share based on the closing price of the agreement date of April 18, 2006. These shares were recorded as outstanding on March 31, 2006 pursuant to the terms of the Escrow Agreement.

### EMPLOYEES

As of March 31, 2006 we employed 78 employees (including seven part-time employees). This includes 30 employees at our corporate offices in Phoenix, Arizona and 36 employees in our Springville, Utah facility. We also have 9 employees located in our development office in Troy, New York and 3 employees who work remotely in other states. None of our employees are represented by collective bargaining agreements.

The populations of our functional organizations on March 31, 2006 included 13 sales employees, three marketing employees, 18 programming and technical support employees, 34 audio conferencing operators and support employees, and 13 finance, executive and administrative employees.

### LEGACY DENTAL PRACTICE MANAGEMENT BUSINESS TREATED AS DISCONTINUED OPERATIONS

The Company began its operations in March of 1998, with the simultaneous roll-up of 50 dental practices (an "Affiliated Practice") and an initial public offering. The Company's initial goals were to provide training and practice enhancement services nationwide to our Affiliated Practices using our proprietary Web-based learning management and financial reporting system. Beginning in April of 2000, the Company modified its affiliated service agreements and commensurate with that change the Company recorded certain charges against earnings during the fiscal years ended March 31, 2002 and March 31, 2001. The Company modified its business plan moving away from its dental

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practice management business during its fiscal year ended March 31, 2002. Effective January 1, 2004, the Company was no longer engaged in the dental practice management business and has reflected such business segment as a discontinued operation.

### ITEM 1A. RISK FACTORS

You should carefully consider the risks described below. The risks and uncertainties described below are not the only ones we face. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could be adversely affected.

**WE HAVE A LIMITED OPERATING HISTORY, WHICH MAKES IT DIFFICULT TO EVALUATE OUR BUSINESS.**

We have a limited operating history in the Web conferencing and audio conferencing business. While the organizations that we have acquired have been engaged in their respective businesses for over five years, we only recently acquired those assets and have undertaken to integrate their assets into our operations at varying levels. Since the acquisition of these businesses, we have made significant changes to our product mix and service mix, our growth strategies, our sales and marketing plans, and other operational matters. Given our recent investment in technology, we cannot be certain that our business model and future operating performance will yield the results that we intend. In addition, the competitive and rapidly changing nature of the Web conferencing and audio conferencing markets makes it difficult for us to predict future results. Our business strategy may be unsuccessful and we may be unable to address the risks we face.

**WE FACE RISKS INHERENT IN INTERNET-RELATED BUSINESSES AND MAY BE UNSUCCESSFUL IN ADDRESSING THESE RISKS.**

We face risks frequently encountered by companies in new and rapidly evolving markets such as Web conferencing and audio conferencing. We may fail to adequately address these risks and, as a consequence, our business may suffer. To address these risks among others, we must successfully introduce and attract new customers to our products and services; successfully implement our sales and marketing strategy to generate sufficient sales and revenues to sustain operations; foster existing relationships with our customers to provide for continued or recurring business and cash flow; and successfully address and establish new products and technologies as new markets develop. We may not be able to sufficiently address and overcome risks inherent in our business strategy.

**OUR QUARTERLY OPERATING RESULTS ARE UNCERTAIN AND MAY FLUCTUATE SIGNIFICANTLY.**

Our operating results have varied significantly from quarter to quarter and are likely to continue to fluctuate as a result of a variety of factors, many of which we cannot control. Factors that may adversely affect our quarterly operating results include: the size and timing of product orders; the mix of revenue from custom services and software products; the market acceptance of our products and services; our ability to develop and market new products in a timely manner; the timing of revenues and expenses relating to our product sales; and revenue recognition rules. Expense levels are based, in part, on expectations as to future revenue and to a large extent are fixed in the short term. To the extent we are unable to predict future revenue accurately, we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall.

**WE HAVE LIMITED FINANCIAL RESOURCES AND MAY NOT REMAIN PROFITABLE.**

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We have incurred substantial operating losses and have limited financial resources at our disposal. We have long-term obligations that we will not be able to satisfy without additional debt and/or equity capital and/or ultimately generating profits and cash flows from our Web conferencing and audio conferencing operations. If we are unable to remain profitable, we will face increasing demands for capital. We may not be successful in raising additional debt or equity capital and may not remain profitable. As a result, we may not have sufficient financial resources to satisfy our obligations as they come due in the short term.

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### LISTING QUALIFICATIONS MAY NOT BE MET.

The American Stock Exchange's continued listing standards require that we maintain stockholders' equity of at least \$4.0 million if we have losses from continuing operations and/or net losses in three of our four most recent fiscal years. We have sustained losses in three of our four most recent fiscal years and therefore must maintain stockholders' equity of at least \$4.0 million. If now or in the future, we fail to maintain a sufficient level of stockholders' equity in compliance with those and other listing standards of the American Stock Exchange, then we would be required to submit a plan to the American Stock Exchange describing how we intended to regain compliance with the requirements. In the event that our shares of common stock are diluted, the liquidity and price per share of our common stock may be adversely affected.

### DILUTION TO EXISTING STOCKHOLDERS WILL OCCUR UPON ISSUANCE OF SHARES WE HAVE RESERVED FOR FUTURE ISSUANCE.

On March 31, 2006, 28,923,168 shares of our common stock were issued, of which 1,432,412 were held in treasury, and 17,138,028 additional shares of our common stock were reserved for issuance as the result of the exercise of warrants or the conversion of convertible notes and convertible preferred stock. The issuance of these additional shares will reduce the percentage ownership of our existing stockholders. The existence of these reserved shares coupled with other factors, such as the relatively small public float, could adversely affect prevailing market prices for our common stock and our ability to raise capital through an offering of equity securities.

### THE LOSS OF THE SERVICES OF OUR SENIOR EXECUTIVES AND KEY PERSONNEL WOULD LIKELY CAUSE OUR BUSINESS TO SUFFER.

Our success depends to a significant degree on the performance of our senior management team. The loss of any of these individuals could harm our business. We do not maintain key person life insurance for any officers or key employees other than on the life of James M. Powers, Jr., our Chairman, President and CEO, with that policy providing a death benefit to the Company of \$1.0 million. Our success also depends on the ability to attract, integrate, motivate and retain additional highly skilled technical, sales and marketing, and professional services personnel. To the extent we are unable to attract and retain a sufficient number of additional skilled personnel, our business will suffer.

### OUR INTELLECTUAL PROPERTY MAY BECOME SUBJECT TO LEGAL CHALLENGES, UNAUTHORIZED USE OR INFRINGEMENT, ANY OF WHICH COULD DIMINISH THE VALUE OF OUR PRODUCTS AND SERVICES.

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Our success depends in large part on our proprietary technology. If we fail to successfully enforce our intellectual property rights, the value of these rights, and consequently, the value of our products and services to our customers, could diminish substantially. It may be possible for third parties to copy or otherwise obtain and use our intellectual property or trade secrets without our authorization, and it may also be possible for third parties to independently develop substantially equivalent intellectual property. Currently, we do not have patent protection in place related to our products and services. Litigation may be necessary in the future to enforce our intellectual property rights, to protect trade secrets or to determine the validity and scope of the proprietary rights of others. While we have not received any notice of any claim of infringement of any of our intellectual property, from time to time we may receive notice of claims of infringement of other parties' proprietary rights. Such claims could result in costly litigation and could divert management and technical resources. These types of claims could also delay product shipment or require us to develop non-infringing technology or enter into royalty or licensing agreements, which agreements, if required, may not be available on reasonable terms, or at all.

COMPETITION IN THE WEB CONFERENCING AND AUDIO CONFERENCING SERVICES MARKET IS INTENSE AND WE MAY BE UNABLE TO COMPETE SUCCESSFULLY, PARTICULARLY AS A RESULT OF RECENT ANNOUNCEMENTS FROM LARGE SOFTWARE COMPANIES.

The markets for Web conferencing and audio conferencing products and services are relatively new, rapidly evolving and intensely competitive. Competition in our market will continue to intensify and may force us to reduce our prices, or cause us to experience reduced sales and margins, loss of market share and reduced acceptance of our services. Many of our competitors have larger and more established customer bases, longer operating histories, greater name recognition, broader service offerings, more employees and significantly greater financial, technical, marketing, public relations, and distribution resources than we do. We expect that we will face new competition as others enter our market to develop Web conferencing and audio conferencing services.

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These current and future competitors may also offer or develop products or services that perform better than ours. In addition, acquisitions or strategic partnerships involving our current and potential competitors could harm us in a number of ways.

FUTURE REGULATIONS COULD BE ENACTED THAT EITHER DIRECTLY RESTRICT OUR BUSINESS OR INDIRECTLY IMPACT OUR BUSINESS BY LIMITING THE GROWTH OF INTERNET-BASED BUSINESS AND SERVICES.

As commercial use of the Internet increases, federal, state, and foreign agencies could enact laws or adopt regulations covering issues such as user privacy, content, and taxation of products and services. If enacted, such laws or regulations could limit the market for our products and services. Although they might not apply to our business directly, we expect that laws or rules regulating personal and consumer information could indirectly affect our business. It is possible that such legislation or regulation could expose us to liability which could limit the growth of our Web conferencing and audio conferencing products and services. Such legislation or regulation could dampen the growth in overall Web conferencing usage and decrease the Internet's acceptance as a medium of communications and commerce.

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WE DEPEND LARGELY ON ONE-TIME SALES TO GROW REVENUES WHICH MAKE OUR REVENUES DIFFICULT TO PREDICT.

While audio conferencing provides a more recurring revenue base, a high percentage of our revenue is attributable to one-time purchases by our customers rather than long-term, recurring, conferencing ASP type contracts. As a result, our inability to continue to obtain new agreements and sales may result in lower than expected revenue, and therefore, harm our ability to achieve or sustain operations or profitability on a consistent basis, which could also cause our stock price to decline. Further, because we face competition from larger, better-capitalized companies, we could face increased downward pricing pressure that could cause a decrease in our gross margins. Additionally, our sales cycle varies depending on the size and type of customer considering a purchase. Potential customers frequently need to obtain approvals from multiple decision makers within their company and may evaluate competing products and services before deciding to use our services. Our sales cycle, which can range from several weeks to several months or more, combined with the license purchase model makes it difficult to predict future quarterly revenues.

OUR OPERATING RESULTS MAY SUFFER IF WE FAIL TO DEVELOP AND FOSTER OUR VALUE ADDED RESELLER OR DISTRIBUTION RELATIONSHIPS.

We have an existing channel and distribution network that provides growing revenues and contributes to our high margin software sales. These distribution partners are not obligated to distribute our services at any minimum level. As a result, we cannot accurately predict the amount of revenue we will derive from our distribution partners in the future. The inability or unwillingness of our distribution partners to sell our products to their customers and increase their distribution of our products could result in significant reductions in our revenue, and therefore, harm our ability to achieve or sustain profitability on a consistent basis.

SALES IN FOREIGN JURISDICTIONS BY OUR INTERNATIONAL DISTRIBUTOR NETWORK AND US MAY RESULT IN UNANTICIPATED COSTS.

We continue to expand internationally through our value added reseller network and OEM partners. We have limited experience in international operations and may not be able to compete effectively in international markets. We face certain risks inherent in conducting business internationally, such as:

- o our inability to establish and maintain effective distribution channels and partners;
- o the varying technology standards from country to country;
- o our inability to effectively protect our intellectual property rights or the code to our software;
- o our inexperience with inconsistent regulations and unexpected changes in regulatory requirements in foreign jurisdictions;
- o language and cultural differences;
- o fluctuations in currency exchange rates;
- o our inability to effectively collect accounts receivable; or
- o our inability to manage sales and other taxes imposed by foreign jurisdictions.

THE GROWTH OF OUR BUSINESS SUBSTANTIALLY DEPENDS ON OUR ABILITY TO SUCCESSFULLY DEVELOP AND INTRODUCE NEW SERVICES AND FEATURES IN A TIMELY MANNER.

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We acquired our Web conferencing software and business in November of 2002 and we acquired our audio conferencing business in June of 2004. With our focus on those products and services, our growth depends on our ability to continue to develop new features, products, and services around that software and product line. We may not successfully identify, develop, and market new products and features in a timely and cost-effective manner. If we fail to develop and maintain market acceptance of our existing and new products to offset our continuing development costs, then our net losses will increase and we may not be able to achieve or sustain profitability on a consistent basis.

IF WE FAIL TO OFFER COMPETITIVE PRICING, WE MAY NOT BE ABLE TO ATTRACT AND RETAIN CUSTOMERS.

Because the Web conferencing market is relatively new and still evolving, the prices for these services are subject to rapid and frequent changes. In many cases, businesses provide their services at significantly reduced rates, for free or on a trial basis in order to win customers. Due to competitive factors and the rapidly changing marketplace, we may be required to significantly reduce our pricing structure, which would negatively affect our revenue, margins and our ability to achieve or sustain profitability on a consistent basis. We have an existing channel and distribution network that provides growing revenues and contributes to our high margin software sales. These distribution partners are not obligated to distribute our services at any particular minimum level. As a result, we cannot accurately predict the amount of revenue we will derive from our distribution partners in the future. The inability of our distribution partners to sell our products to their customers and increase their distribution of our products could result in significant reductions in our revenue, and, therefore, harm our ability to achieve or sustain profitability on a consistent basis.

IF WE ARE UNABLE TO COMPLETE OUR ASSESSMENT AS TO THE ADEQUACY OF OUR INTERNAL CONTROLS OVER FINANCIAL REPORTING AS REQUIRED BY SECTION 404 OF THE SARBANES-OXLEY ACT OF 2002, INVESTORS COULD LOSE CONFIDENCE IN THE RELIABILITY OF OUR FINANCIAL STATEMENTS, WHICH COULD RESULT IN A DECREASE IN THE VALUE OF OUR COMMON STOCK.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted rules requiring non-accelerated public companies to include in their annual reports on Form 10-K for fiscal years beginning after December 16, 2006 a report of management on their company's internal control over financial reporting, including management's assessment of the effectiveness of their company's internal control over financial reporting as of the company's fiscal year end. In addition, the accounting firm auditing a public company's financial statements must also attest to and report on management's assessment of the effectiveness of the company's internal control over financial reporting as well as the operating effectiveness of the company's internal controls. There is a risk that we may not comply with all of its requirements. If we do not timely complete our assessment or if our accounting firm determines that our internal controls are not designed or operating effectively as required by Section 404, our accounting firm may either disclaim its opinion as it is related to management's assessment of the effectiveness of its internal controls or may issue a qualified opinion on the effectiveness of our internal controls. If our accounting firm disclaims its opinion or qualifies its opinion as to the effectiveness of our internal controls, then investors may lose confidence in the reliability of our financial statements, which could cause the market price of our common stock to decline.

WE MAY ACQUIRE OTHER BUSINESSES THAT COULD NEGATIVELY AFFECT OUR OPERATIONS AND FINANCIAL RESULTS AND DILUTE EXISTING STOCKHOLDERS.

We may pursue additional business relationships through acquisitions

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which may not be successful. We may have to devote substantial time and resources in order to complete acquisitions and we therefore may not realize the benefits of those acquisitions. Further, these potential acquisitions entail risks, uncertainties and potential disruptions to our business. For example, we may not be able to successfully integrate a company's operations, technologies, products and services, information systems, and personnel into our business. These risks could harm our operating results and could adversely affect prevailing market prices for our common stock.

OUR CURRENT STOCK COMPENSATION EXPENSE NEGATIVELY IMPACTS OUR EARNINGS, AND WHEN WE ARE REQUIRED TO REPORT THE FAIR VALUE OF EMPLOYEE STOCK OPTIONS AS AN EXPENSE IN CONJUNCTION WITH THE NEW ACCOUNTING STANDARDS, OUR EARNINGS WILL BE ADVERSELY AFFECTED, WHICH MAY CAUSE OUR STOCK PRICE TO DECLINE.

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Under our current accounting practice, stock compensation expense is recorded on the date of the grant only if the current market price of the underlying stock exceeds the exercise price. Beginning with the fiscal quarter April 1, 2006, we will be required to report all employee stock options as an expense based on a change in the accounting standards and our earnings will be negatively impacted, which could adversely affect prevailing market prices for our common stock and increase our anticipated net losses.

### ITEM 2. PROPERTIES

We maintain corporate headquarters in Phoenix, Arizona and have occupied that 14,000 square foot Class A facility since the Company's inception in 1998. The Phoenix lease began in 1998 and has a term of 10 years. The Phoenix office can accommodate up to 85 employees and is fully equipped with up-to-date computer equipment and server facilities. Subsequent to March 31, 2006, the Company amended the lease on its Phoenix location, which was set to expire February 28, 2007. The term was extended to February 28, 2012, the square footage was reduced to 9,100 and the related rent expense was therefore reduced as a result of the amendment. After this amendment, the Phoenix lease requires a monthly rent and operating expenses of approximately \$25,000.

We also maintain a 2,500 square foot Class B facility in Troy, New York costing \$4,600 per month with an emphasis in that location on research and development, and technical support.

In addition, we maintain offices in Springville, Utah, occupying a Class A facility in two adjacent buildings. The first building houses its administrative and IT functions, with 10,000 square feet of space, with the second housing the operator complex and sales organizations with 6,122 square feet. The Springville lease began in 2003 and has a term of five years. The Springville offices can accommodate up to 100 employees and is fully equipped with up-to-date computer equipment. The facility also provides a fully redundant co-location and server facility for audio conferencing activities and hosted Web conferencing services. The Springville lease requires a monthly rent of approximately \$13,500.

### ITEM 3. LEGAL PROCEEDINGS

On June 14, 2002, the Company acquired the assets of Quisic. Subsequently, on November 4, 2002, two former employees of Quisic (Mr. Weathersby, their former CEO and Mr. Alper, their former CIO), filed a lawsuit



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in the Superior Court of the State of California styled George B. Weathersby, et al. vs. Quisic, et al. claiming damages against Quisic and the Board of Directors of Quisic arising from their employment termination by the Quisic Board. The Company was also added as a third party defendant with an allegation of successor liability, but only to the extent that Quisic is found liable, and then only to the extent the plaintiffs prove their successor liability claim against the Company. Through arbitration, the claims of Alper against all of the defendants were dismissed. The Company only acquired certain assets of Quisic in an asset purchase transaction. Based upon the facts and circumstances known, the Company believes that the plaintiffs' claims are without merit, and furthermore, that the Company is not the successor of Quisic, and therefore the Company intends to vigorously defend this aspect of the lawsuit. While in the opinion of management, resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur that awarded large sums to the Plaintiff against defendant Quisic, and then the court determined that the Company is a successor to Quisic, then the impact is likely to be material to the Company. The claims by Mr. Weathersby against Quisic remain with the trial proceeding in the discovery phase.

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

NONE

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#### ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information concerning the executive officers of the Company (ages are as of March 31, 2006):

James M. Powers, Jr.	50	Chairman, President and Chief Executive Officer
James L. Dunn, Jr.	44	Senior Vice President, Chief Financial Officer and General Counsel
Nathan Coccozza	33	Senior Vice President of Sales
Gary Moulton	37	Senior Vice President of Audio Conferencing Services

JAMES M. POWERS, JR.  
Chairman, President and Chief Executive Officer

Dr. James M. Powers, Jr. has served as Chairman, President and CEO of the Company since December 1998. Dr. Powers led the Company through its initial growth and acquisition phase and subsequent transformation to an integrated communications company providing Web, audio, video, and Voice-over IP solutions. Dr. Powers joined the Company through the merger with Liberty Dental Alliance, Inc., a Nashville-based company where he was the founder, Chairman, and President from 1997 to 1998. Dr. Powers was a founder and Chairman of Clearidge, Inc., a privately held bottled water company in Nashville, Tennessee from 1993 to 1999, where he led Clearidge through 13 acquisitions over three years to become one of the largest independent bottlers in the Southeast, before selling the company to Suntory Water Group, Inc. Dr. Powers also was a founder and Director of Barnhill's Buffet, Inc., a privately held chain of 48 restaurants in the Southeast with over \$100 million in annual revenues, which was sold in early 2005. He received his Bachelor of Science Degree from the University of Memphis, a Doctor of Dental Surgery Degree from The University of Tennessee, and his MBA from Vanderbilt University's Owen Graduate School of Management.

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JAMES L. DUNN, JR.

Senior Vice President, Chief Financial Officer and General Counsel

James L. Dunn, Jr., assisted with the formation of the Company and was an integral part of the Company's initial public offering. Since the Company's inception, Mr. Dunn has been responsible for all corporate development activities, including most recently the acquisition of its Web conferencing and audio conferencing assets. Mr. Dunn is an attorney and assumed the role of General Counsel in March of 2000. He managed the legal transition of the Company from its legacy business beginnings to its current Web and audio conferencing focus. Mr. Dunn is also a CPA and assumed the role of Chief Financial Officer in June of 2005. He received his law degree from Southern Methodist University School of Law in 1987 and his Bachelor's Degree in Business Administration-Accounting from Texas A & M University in 1984.

NATHAN COCOZZA

Senior Vice President of Sales

Nathan Coccozza joined the Company in early January of 2004 as Senior Vice President of Sales. Mr. Coccozza has had extensive sales experience, specifically in the Web conferencing, audio conferencing, and Web collaboration industry. He was previously the Vice President of strategic development for PlaceWare where he was responsible for their growth in their major accounts department from five to 50 people, obtaining contracts from organizations representing over 50% of the Fortune 100, and a major factor in PlaceWare's overall growth in revenue to over \$50 million annually. PlaceWare was a leading provider of Web conferencing services that began in 1997 and ultimately was purchased by Microsoft for reportedly \$200 million. Mr. Coccozza subsequently served as Vice President of North American Web sales for Genesys Conferencing (NasdaqNM:GNSY), where he was responsible for the launch of the Genesys Web collaboration services in the United States. Genesys, a French-based company, provides primarily audio conferencing as well as integrated Web conferencing services in 20 countries.

GARY MOULTON

Senior Vice President of Audio Conferencing Services

Gary Moulton joined the Company as Senior Vice President of Audio Conferencing Services with the Glyphics transaction in June 2004. Mr. Moulton brings more than 10 years of service, management, and customer support experience to iLinc in the audio conferencing industry. He founded Glyphics in 1995 and managed its growth into a leading provider of phone conferencing and audio conferencing services and events. As a member of the Glyphics' Board of Directors and as President and Chief Executive Officer, he was responsible for developing and implementing corporate vision and strategy. Prior to starting Glyphics, Mr. Moulton was manager of inside sales and customer service for Cookiecree Bakeries, Inc., a national food service company. Mr. Moulton also served for four years in the United States Marine Corps.

### PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS  
MARKET INFORMATION, HOLDERS, AND DIVIDENDS

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The Company's common stock has been traded on the American Stock Exchange system under the symbol "ILC" since February 6, 2004. The following table sets forth the range of the reported high and low sales prices of the Company's common stock for the years ended March 31, 2006 and 2005:

2006	HIGH	LOW
-----	-----	-----
First Quarter.....	\$0.38	\$0.25
Second Quarter.....	\$0.30	\$0.18
Third Quarter.....	\$0.34	\$0.15
Fourth Quarter.....	\$0.49	\$0.24
2005	HIGH	LOW
-----	-----	-----
First Quarter .....	\$1.37	\$0.77
Second Quarter.....	\$0.92	\$0.41
Third Quarter.....	\$0.60	\$0.40
Fourth Quarter.....	\$0.54	\$0.32

As of June 26, 2006, the closing price of our common stock was \$0.54 per share and there were approximately 250 holders of record, as shown on the records of the transfer agent and registrar of common stock. The number of record holders does not bear any relationship to the number of beneficial owners of the common stock.

The Company has not paid any cash dividends on its common stock in the past and does not plan to pay any cash dividends on its common stock in the foreseeable future. The Company's Board of Directors intends, for the foreseeable future, to retain earnings to finance the continued operation and expansion of the Company's business.

### EQUITY COMPENSATION PLANS

The table below provides information relating to our equity compensation plans as of March 31, 2006.

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 Remainin Future Compe (Exclud Refle
Equity compensation plans approved by security holders	2,637,864	\$1.07	2
Equity compensation plans approved by security holders	450,000	\$8.50	
Equity compensation plans not approved by security holders	----	----	
Total	----- 3,087,864 =====		----- 2 =====

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In December 2001, the Company, under the initiative of the Compensation Committee with the approval of the Board of Directors, issued its Chief Executive Officer an incentive stock grant under the 1997 Stock Compensation Plan of 450,000 restricted shares of the Company's common stock as a means to retain and incentivize the Chief Executive Officer. The shares were valued at \$405,000 based on the closing price of the stock on the date of grant, which is recorded as compensation expense ratably over the vesting period. The shares 100% vest after 10 years from the date of grant or upon attaining the following price performance criteria: 150,000 shares vest if the share price trades for \$4.50 per share for 20 consecutive days; 150,000 shares vest if the share price trades for \$8.50 per share for 20 consecutive days; and 150,000 shares vest if the share price trades for \$12.50 per share for 20 consecutive days.

Subsequent to March 31, 2006, the Compensation Committee of the Board of Directors amended the vesting performance criteria hurdles as follows: 150,000 shares vest if the share price trades for \$1.00 per share for 20 consecutive days; 150,000 shares vest if the share price trades for \$2.00 per share for 20 consecutive days; and 150,000 shares vest if the share price trades for \$3.00 per share for 20 consecutive days. All other aspects of the grant remained the same.

### SALES OF UNREGISTERED SECURITIES

Set forth below are the securities we issued during the 2006 fiscal year in private placement transactions which at the time were not registered under the Securities Act of 1933, as amended (the "Securities Act"). Further included is the consideration, if any, we received for such securities and information relating to the section of the Securities Act, or rule of the Securities and Exchange Commission, under which exemption from registration was claimed.

On September 30, 2005, the Company executed definitive agreements with nine investors to issue 70,000 unregistered shares of its Series B Preferred Stock, par value \$0.001 (the "Series B Preferred Stock") and warrants to purchase 700,000 shares of its common stock (the "Warrants") in a private transaction that was exempt from registration under Section 4(2) of the Securities Act. Of the total Series B Preferred Stock issued, 15,000 shares of Series B Preferred Stock with Warrants to purchase 150,000 shares of common stock were issued to four individuals in exchange for their cash investment of \$150,000; 15,000 shares of Series B Preferred Stock with Warrants to purchase 150,000 shares of common stock were issued to two vendors in exchange for an offset of their accounts payable balance in the amount of \$150,000; and 40,000 shares of Series B Preferred Stock with Warrants to purchase 400,000 shares of common stock (effective August 29, 2005 as previously disclosed on Form 8-K dated September 2, 2005) were issued to three institutional investors in exchange for the offset of accrued liabilities in the amount of \$400,000 that arose from the acquisition of certain assets from Quisic Corporation in June of 2002. The Company recorded a gain in debt conversion of \$50,000 associated with this transaction since the liabilities outstanding were \$450,000. The Series B Preferred Stock bears an 8% dividend, was sold using a deemed \$10.00 per share issue price, and is convertible into 2,800,000 shares of the Company's common stock using a conversion price of \$0.25 per share. The Warrants that are exercisable at an exercise price equal to \$0.50 per share expire on the third anniversary of the issue date of September 30, 2005. The issuance of these securities was made in reliance upon the exemptions from registration set forth in Section 4(2) of the Securities Act and Regulation D under the Securities Act.

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The aggregate value of the warrants of \$55,000 is considered a deemed dividend in the calculation of loss per share.

Subsequent to March 31, 2006, on June 9, 2006, the Company completed a private placement of 5,405,405 unregistered, restricted shares of common stock providing the Company \$1.7 million in net cash proceeds. The Company paid its placement agent an underwriting commission of \$180,000, of which \$25,000 was recorded as deferred offering costs at March 31, 2006, and incurred additional offering expenses of approximately \$50,000. Within 30 days of the closing date, the Company will file a Registration Statement on Form S-3 to enable the resale of the shares by the Investors. The Company intends to use the proceeds for working capital and general corporate purposes.

### ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data of the Company (AMEX:ILC) that has been derived from the audited consolidated financial statements. Effective January 1, 2004, the Company discontinued its dental practice management services. The Company has restated its historical results to reflect that business segment as a discontinued operation. The Company began its current Web conferencing operations during the 2002 fiscal year. The selected financial data should also be read in conjunction with the Company's consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

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STATEMENT OF OPERATIONS DATA:	YEAR ENDED MARCH 31, 2006 -----	YEAR ENDED MARCH 31, 2005 -----	YEAR ENDED MARCH 31, 2004 (*) -----
Revenues			
Licenses .....	\$ 3,014	\$ 3,274	\$ 2,240
Software and audio services .....	7,070	5,052	1,195
Maintenance and professional services .....	2,448	2,043	2,471
	-----	-----	-----
Total revenue .....	12,532	10,369	5,906
Cost of revenues and operating expenses .....	11,789	13,743	7,293
	-----	-----	-----
Income (loss) from operations .....	743	(3,374)	(1,387)
	-----	-----	-----
Loss from continuing operations before income taxes .....	(1,254)	(5,199)	(2,293)
Income tax expense .....	--	--	--
	-----	-----	-----
Loss from continuing operations .....	(1,254)	(5,199)	(2,293)
Income (loss) from discontinued operations .....	83	(128)	275
	-----	-----	-----
Net income (loss) .....	(1,171)	(5,327)	(2,018)
Preferred stock dividends .....	(130)	(105)	(75)
Imputed preferred stock dividends .....	(55)	--	(247)
	-----	-----	-----
Income (loss) available to common shareholders...	\$ (1,356)	\$ (5,432)	\$ (2,340)
	=====	=====	=====

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Earnings (loss) per common share - basic and			
Diluted			
From continuing operations .....	\$ (0.05)	\$ (0.23)	\$ (0.16)
From discontinued operations .....	--	--	0.02
	-----	-----	-----
Net earnings (loss) per common share .....	\$ (0.05)	\$ (0.23)	\$ (0.14)
	=====	=====	=====

### BALANCE SHEET DATA:

Cash and cash equivalents .....	\$ 466	\$ 532	\$ 292
Working capital (deficit) .....	(1,941)	(4,251)	(3,113)
Assets of discontinued operations .....	--	114	301
Total assets .....	16,000	17,229	12,460
Long-term debt, less current maturities .....	8,467	8,822	6,404
Long-term debt discount .....	(1,493)	(2,120)	(1,960)
Liabilities of discontinued operations .....	53	263	--
Total shareholders' equity .....	4,370	3,670	3,366

(\*) Effective January 1, 2004, the Company discontinued its dental practice management services. The Company has restated its historical results and selected financial data to reflect its dental segment as a discontinued operation.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

STATEMENTS CONTAINED IN THIS ANNUAL REPORT ON FORM 10-K THAT INVOLVE WORDS LIKE "ANTICIPATES," "EXPECTS," "INTENDS," "PLANS," "BELIEVES," "SEEKS," "ESTIMATES," AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, THE SECURITIES ACT OF 1933, AS AMENDED, AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH FORWARD-LOOKING STATEMENTS INVOLVE CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANTICIPATED RESULTS. THESE RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO, OUR DEPENDENCE ON OUR PRODUCTS OR SERVICES, MARKET DEMAND FOR OUR PRODUCTS AND SERVICES, OUR ABILITY TO ATTRACT AND RETAIN CUSTOMERS AND CHANNEL PARTNERS, OUR ABILITY TO EXPAND OUR TECHNOLOGICAL INFRASTRUCTURE TO MEET THE DEMAND FROM OUR CUSTOMERS, OUR ABILITY TO RECRUIT AND RETAIN QUALIFIED EMPLOYEES, THE ABILITY OF CHANNEL PARTNERS TO SUCCESSFULLY RESELL OUR SERVICES, THE STATUS OF THE OVERALL ECONOMY, THE STRENGTH OF COMPETITIVE OFFERINGS, THE PRICING PRESSURES CREATED BY MARKET FORCES, AND THE OTHER RISKS DISCUSSED HEREIN. ALL FORWARD-LOOKING STATEMENTS INCLUDED IN THIS REPORT ARE BASED ON INFORMATION AVAILABLE TO US AS OF THE DATE HEREOF. WE EXPRESSLY DISCLAIM ANY OBLIGATION OR UNDERTAKING TO RELEASE PUBLICLY ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN, TO REFLECT ANY CHANGE IN OUR EXPECTATIONS OR IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED. OUR REPORTS ARE AVAILABLE FREE OF CHARGE AS SOON AS REASONABLY PRACTICABLE AFTER WE FILE THEM WITH THE SEC AND MAY BE OBTAINED THROUGH OUR WEB SITE.

### COMPANY OVERVIEW

Headquartered in Phoenix, Arizona, iLinc Communications, Inc. is a

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leading provider of Web conferencing, audio conferencing and collaboration software and services. We develop and sell software that provides real-time collaboration and training using Web-based tools. Our four-product iLinc Suite, comprised of LearnLinc, MeetingLinc, ConferenceLinc, and SupportLinc, is an award winning virtual classroom, Web conferencing and collaboration suite of software. With our Web collaboration, conferencing and virtual classroom products, we provide simple, reliable and cost-effective tools for remote presentations, meetings and online events. Our software is based on a proprietary architecture and code that finds its origins as far back as 1994, in what we believe to be the beginnings of the Web collaboration industry. Versions of the iLinc Suite have been translated into six languages, and it is currently available in Version 8.01. Our customers may choose from several different pricing and licensing options for the iLinc Suite depending upon their needs. Uses for our four-product suite of Web collaboration software include online business meetings, sales presentations, training sessions, product demonstrations and technical support assistance. We sell our software solutions to large and medium-sized corporations inside and outside of the Fortune 1000. We market our products using a direct sales force and a distribution channel consisting of agents and value added resellers. We allow customers to choose between purchasing a perpetual license and subscribing to a term license, providing for flexibility in pricing and payment methods. Our revenues are a mixture of high margin perpetual licenses of software and monthly recurring revenues from annual maintenance, hosting and support agreements, and other products and services.

### PRODUCTS AND SERVICES

#### WEB CONFERENCING AND WEB COLLABORATION

The iLinc Suite is a four-product suite of software that addresses the most common business collaboration needs.

LearnLinc is an Internet-based software that is designed for training and education of remote students. With LearnLinc, instructors and students can collaborate and learn remotely providing an enhanced learning environment that replicates and surpasses traditional instructor-led classes. Instructors can create courses and classes, add varied agenda items, enroll students, deliver live instruction, and deliver content that includes audio, video, and interactive multimedia. In combination with TestLinc, LearnLinc permits users to administer comprehensive tests, organize multiple simultaneous breakout sessions, and record, edit, play back, and archive entire sessions for future use.

MeetingLinc is an online collaboration software designed to facilitate the sharing of documents, PowerPoint(TM) presentations, graphics, and applications between meeting participants without leaving their desks. MeetingLinc allows business professionals, government employees, and educators to communicate more effectively and economically through interactive online meetings using Voice-over IP technology to avoid the expense of travel and long distance charges. MeetingLinc allows remote participants to give presentations, demonstrate their products and services, annotate on virtual whiteboards, edit documents simultaneously and take meeting participants on a Web tour. Like all of the Web collaboration products in the Suite, MeetingLinc includes integrated voice and video conferencing services.

ConferenceLinc is a presentation software designed to deliver the message in a one-to-many format providing professional management of Web conferencing events. ConferenceLinc manages events such as earnings announcements, press briefings, new product announcements, corporate internal mass communications and external marketing events. ConferenceLinc is built on the MeetingLinc software platform and code to combine the best interactive features with an easy-to-use interface providing meaningful and measurable

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results to presenters and participants alike. Its design includes features that take the hassle out of planning and supporting a hosted Web seminar. ConferenceLinc includes automatic email invitations, "one-click join" capabilities, online confirmations, update notifications, and customized attendee registration. With ConferenceLinc, presenters may not only present content, but may also gain audience feedback using real-time polling, live chat, question and answer sessions, and post-event assessments. The entire presentation is easily recordable for viewing offline and review after the show with the recorder capturing the content and the audio, video and participant feedback.

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SupportLinc is an online technical support and customer sales support software designed to give customer service organizations the ability to provide remote hands-on support for products, systems, or software applications. SupportLinc manages the support call volume and enhances the effectiveness of traditional telephone-based customer support systems. SupportLinc's custom interface is designed to be simple to use so as to improve the interaction and level of support for both customers and their technical support agents.

Our Web collaboration software is sold on a perpetual license or periodic license basis. A customer may choose to acquire a one-time perpetual license (the "Purchase Model") or may rent our software on an annual basis on either a per seat or per minute basis (the "ASP Model"). Should they choose to acquire the software using the Purchase Model, then they may either elect to host our software behind their own firewall or they may choose to have iLinc host it for them, depending upon their preferences, budget and IT capabilities. Customers who select the Purchase Model, whether hosted by iLinc or the customer, may also subscribe for ongoing customer support and maintenance services, using a support and maintenance contract with terms from one to five years. The maintenance and support fee charged is between 15% and 18% of the purchase license fee that is paid for the perpetual licenses and varies depending upon the length of the support agreement. If a customer chooses to have iLinc host their Purchase Model licenses, then the customer is charged a hosting fee equal to 10% of the purchase license fee that was paid for the perpetual license.

During Fiscal 2006, iLinc launched its Enterprise Unlimited perpetual licensing model that enables customers to pay a one-time up-front fee for unlimited, organization-wide Web Conferencing. Those customers who qualify for the iLinc Enterprise Unlimited site license may subscribe to an unlimited use license. The initial iLinc Enterprise Unlimited license fee is determined based upon the number of employees within the customer's organization and various other factors. The annual maintenance and support fees and hosting fees associated with an iLinc Enterprise Unlimited license are then based upon a fixed rate per-seat license that is active on each annual anniversary of the iLinc Enterprise Unlimited license agreement. Customers may expand the number of active seats available to them at any time with a corresponding increase in annual maintenance and hosting fees being charged.

Customers choosing the ASP Model pay per seat (concurrent connection) on either a per month or per year basis depending upon the length and term of the subscription agreement. Hosting and maintenance are included as a part of the monthly or annual rental fees. Customers may also obtain Web conferencing and audio conferencing on a per minute basis using the iLinc On-Demand product. Those choosing the iLinc On-Demand product pay on a monthly basis typically without contractual commitment.



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### AUDIO CONFERENCING

Through its acquisition of substantially all of the assets of Glyphics Communications, Inc. ("Glyphics") in June 2004, the Company also delivers comprehensive audio conferencing solutions that help businesses provide virtual meetings, corporate events, distance learning programs, and daily conference calls. Our audio conferencing offering includes a wide array of services and products that include the following:

- o AUDIO ON-DEMAND (NO RESERVATIONS NEEDED): With pre-established calling accounts for each user, you can create or participate in conference calls with no advance notice, 24/7;
- o RESERVED AUTOMATED: The solution for recurring calls, each participant has a permanent number and passcode;
- o OPERATOR ASSISTED: For important calls, this service includes an iLinc conference operator to host, monitor, and coordinate the call; and,
- o ONLINE SEMINARS: High-quality event services that include invitation and user management, scripting, presentation preparation, post show distribution, and dedicated operator assistance from iLinc.

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Customers may purchase our audio conferencing products and services without an annual contract commitment on a monthly recurring usage basis, and often subscribe for a fixed per-minute rate.

### OTHER PRODUCTS AND SERVICES

In addition to the iLinc Suite of products and services, we offer to our customers an array of e-Learning and training products and services. We offer training software products that, like iLinc, promote online collaboration with products that integrate with our LearnLinc software. These include: TestLinc which is an assessment and quizzing tool that allows for formal testing and evaluation of students and i-Canvas, which is a training content development software that allows non-technical training professionals to create Web-based training courses without programming. i-Canvas is sold on an individual user perpetual license basis. We offer custom content development services through a subcontractor relationship. We also offer a library of online courses focused upon the training of executives on essential business topics. Our off-the-shelf online library of content includes an online mini-MBA program co-developed with the Tuck School of Business at Dartmouth College.

### INDUSTRY TRENDS

Industry analyst Frost and Sullivan in their recent World Web Conferencing Market report separates the Web Conferencing vendor community into distinct groups that include: service providers ("Service Providers") and software providers ("Software Providers"). The difference between Service Providers and Software Providers is that the Service Providers effectively only offer Web conferencing as an ASP service or rental model basis. However, Software Providers offer Web conferencing as a solution that can be purchased and owned by customers (whether the software is installed internally by

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customers or hosted by the software provider). iLinc is one of the only providers that effectively competes in both the Service Provider and Software Provider markets. While we also offer our iLinc Suite as an ASP or per-minute service, the predominate licensing arrangement selected by our customer base remains the Purchase Model. The Web conferencing software market is the faster growing segment, representing about \$227 million of the current Web conferencing market. A Frost and Sullivan forecast projects a 40% Compound Annual Growth Rate ("CAGR") between 2002 and 2010 (as compared with the service provider market which is projected to grow at a 22% CAGR for the same time period). The Software Provider market, based upon its higher growth rate, is expected to outgrow the Service Provider market by the end of 2009.

Another important trend in the industry is the convergence of communication technologies such as audio and Web conferencing and the increase in demand for a single source for both of these capabilities. Frost and Sullivan has noted, in a separate report on audio conferencing, that the demand for integrated audio, Web, and video conferencing solutions continues to surge as end user needs for easy-to-use, single-source solutions swell. Developing and providing a truly converged user environment and experience, including the integration of audio, Web and video conferencing technologies, is essential. With the addition of audio conferencing capabilities, we have been able to provide a single source for deeply integrated Web, audio, video as well as Voice-over IP. Increasingly, the option a vendor chooses for Web conferencing determines their selection for audio conferencing. We believe we have already made significant progress in selling audio conferencing to the iLinc customer base and we actively cross sell all of our products and services to all customers. We believe that another benefit of the integrated conferencing approach is customer retention. According to the same Frost and Sullivan report, when Web conferencing and audio conferencing are sold together as an integrated package there is a significant increase in retention of the audio conferencing service. We are continuing to create incentives for our audio customers to be both Web and audio customers to drive this retention.

### MARKET POSITION - DIFFERENTIATORS

We view our position in the market as the best solution for the enterprise-wide buyer that has already adopted Web conferencing, as well as organizations that believe their usage of Web conferencing will grow quickly. As mentioned earlier, a growing number of these organizations are using four or more different vendors for Web or audio conferencing services and, therefore, not realizing the economies of scale that consolidating to one or two vendors for these services can provide. There are also other important considerations revolving around Web conferencing such as security and bandwidth availability that are forcing the buying decision for Web and audio conferencing out of the business units and into the IT department. We believe that our solution uniquely maps to critical IT requirements among these mature buyers in four important areas.

First, we offer WEB CONFERENCING SOFTWARE WITH FLEXIBLE LICENSING OPTIONS that allows organizations to pay a one-time license fee to install the software inside of their environment, or to purchase perpetual licenses and have those licenses hosted in our co-location facility. We find this flexibility to be an important differentiator to address the needs of customers that are ready to make an enterprise-wide decision as well as customers that think their usage may grow throughout their organization. We believe this licensing structure also enables us to maintain a consistent revenue stream of smaller sized purchases while also winning larger enterprise-wide deals that help substantially increase revenue growth.

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Second, we believe we offer the HIGHEST LEVEL OF DATA SECURITY commercially available. We believe that we are the only Web conferencing provider that offers a customer-hosted solution with a purchase license option and true point-to-point security with our unique combination of Advanced Encryption Standard and secure socket layer (SSL). All information within a session can be transmitted between meeting attendees securely without any reduction in performance. We believe this aspect of our software has been extremely attractive to government, military, and financial organizations as well as to the companies that supply to these entities. We also believe that this solution, combined with other aspects of our software, enables us to be a more reliable solution than our Web conferencing software competitors.

Third, our solution is SUITABLE AND SCALABLE FOR ENTERPRISE-WIDE DEPLOYMENT. The iLinc Suite contains four modes that address the most common needs for business collaboration within the enterprise. We offer virtual classroom software with our LearnLinc mode, presentation and sales demonstration capabilities with MeetingLinc, customer support with SupportLinc, and a mode for Web casts and marketing events with ConferenceLinc. Each of these modes shares a common interface enabling users of one mode to easily understand any of our other modes. We believe this reduces the learning curve for Web conferencing enterprise-wide roll out and we believe increases adoption success. All users can have access to all four modes of the suite. This is an important differentiation because our competition typically charges separate licensing fees for the use of separate modes. Giving users access to the full suite supports the natural migration of Web conferencing usage from department to department. Each of the modes has functionality built specifically for a particular type of activity.

Fourth, we provide what we believe to be an EXCEPTIONAL "TOTAL COST OF OWNERSHIP" VALUE. Our software and services are competitively priced but, unlike our competitors, a customer's installation of our product is a very short and non-labor intensive process. Maintenance of our software also requires minimal attention from an IT perspective. We believe most of our Web conferencing software competitors require very complex and costly implementations.

We believe that all of these factors make our solution compelling to organizations that have already adopted the practice of Web conferencing as a best practice as well as companies that are just starting to use Web conferencing, but anticipate that their usage will grow quickly. We recognize that in order to grow our market share we need to develop products that are easy to implement and that scale with our customer needs.

### SALES AND MARKETING FOCUS

To leverage these advantages, our organization continually creates new marketing and sales campaigns that focus in four target markets.

- o We sell to prospects that are using other Web conferencing service providers that are ready to migrate to Web conferencing software. We find that these organizations appreciate the cost and feature advantages that our technology offers.
- o We target organizations that have a natural fit for highly secure Web conferencing software such as government, military, and financial organizations as well as the companies that supply to these entities.
- o We target organizations looking to deploy live, Web-based training. Our software was originally built for training and we have maintained a competitive technology advantage in this area.

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- o We continue to cross sell all of our products and services to our large database of existing customers.

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### RESULTS OF OPERATIONS

As of March 31, 2006, we provide integrated Web and audio conferencing software and services with what we believe to be a very robust feature set that includes integrated video and Voice-over IP. The iLinc Suite includes: LearnLinc, which permits live instructor-led training and education over the Internet to remote students replicating the instructor-led environment; MeetingLinc, which facilitates more effective and economical communication through online meetings using Voice-over IP technology to avoid the expense of travel and long-distance charges; ConferenceLinc, which delivers your message more consistently in a one-to-many format replicating professionally managed conferencing events; and SupportLinc, which gives customer service organizations the ability to provide remote, hands-on support for products, systems, or software applications. The iLinc Suite is available in both a periodic license rental model and perpetual license purchase model. Since its beginnings in 1994, LearnLinc and MeetingLinc have been installed and operational in corporate, government, and educational organizations in the United States and internationally. Our iLinc suite of products includes the ability to use integrated Voice-over IP and two-way live video. We have also completely integrated audio conferencing services into the Web conferencing products. These services supplement the Web product but can also be purchased separately.

The operations of the Company involve many risks, which, even through a combination of experience, knowledge, and careful evaluation, may not be overcome. These risks include the fact that the market for Web conferencing products and services is in the early stages of development and may not grow to a sufficient size or at a sufficient rate to sustain the Company's business. The Company also faces intense competition from other Web conferencing and audio conferencing providers and may be unable to compete successfully. Many of the Company's existing and potential competitors have longer operating histories and significantly greater financial, technical, and other resources and therefore may be able to more quickly respond to changing opportunities or customer requirements. New competitors are also likely to enter this market in the future due to the lack of significant barrier to entry in the market share. See "Additional Risk Factors That May Affect Our Operating Results and The Market Price of Our Common Stock."

### REVENUES FROM CONTINUING OPERATIONS

Total revenues generated from continuing operations for the 12 months ended March 31, 2006 ("fiscal 2006") and March 31, 2005 ("fiscal 2005") were \$12.5 million and \$10.4 million, respectively, an increase of \$2.1 million. License revenues from continuing operations decreased \$260,000 from \$3.3 million in fiscal 2005 to \$3.0 million in fiscal 2006. Software and audio services revenues increased \$2.0 million from \$5.1 million in fiscal 2005 to \$7.1 million in fiscal 2006, and maintenance and professional services revenues increased \$405,000 from \$2.0 million in fiscal 2005 to \$2.4 million in fiscal 2006. The overall increase in revenue is primarily a result of the Company's audio services revenue for a full twelve months in fiscal 2006 versus only ten months in fiscal 2005 due to the Glyphics acquisition, as well as continuing expansion into the Web and audio conferencing marketplace and concentrated sales and marketing strategies focused on promoting the iLinc Suite of products. Software license sales were relatively flat between fiscal 2006 and 2005.

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Total revenues from continuing operations generated for the 12 months ended March 31, 2005 and March 31, 2004 ("fiscal 2004") were \$10.4 million and \$5.9 million, respectively, an increase of \$4.5 million. License revenues from continuing operations increased \$1.0 million from \$2.2 million in fiscal 2004 to \$3.3 million in fiscal 2005, software and audio services revenue increased \$3.9 million from \$1.2 million in fiscal year 2004 to \$5.1 million in fiscal 2005, and service and maintenance revenues decreased \$428,000 from \$2.5 million in fiscal 2004 to \$2.0 million in fiscal 2005. The increase in revenue is a result of the Company's continuing expansion into the Web conferencing marketplace and concentrated sales and marketing strategies focused on promoting the iLinc Suite of products.

### COST OF REVENUES FROM CONTINUING OPERATIONS

Cost of license revenues is driven by the amount of software licenses sold. It consists of royalty and usage fees paid to third parties on sale of certain product licenses and costs for fulfillment and materials. Cost of license revenues for the 12 months ended March 31, 2006 and March 31, 2005 were \$51,000 and \$154,000 respectively, a decrease of \$103,000. The decrease is related to a decrease in third party usage fees for the Company's online learning management product. Cost of license revenues for the 12 months ended March 31, 2005 and March 31, 2004 were \$154,000 and \$219,000, respectively, a decrease of \$65,000. The decrease is related to a decrease in third party usage fees for the Company's online learning management product.

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Cost of software and audio services revenue include salaries and related expenses for our Web conferencing and audio services organizations, an overhead allocation consisting primarily of a portion of our facilities, communications, and depreciation expenses that are attributable to providing these services, an allocation of technical support costs attributable to providing support for these services and direct costs related to our ASP, hosting, and audio services offerings. Cost of software and audio services for the 12 months ended March 31, 2006 and March 31, 2005 were \$3.9 million and \$3.8 million, respectively, an increase of \$82,000. The overall increase in costs is due to the inclusion of the Glyphics audio conferencing acquisition for a full year in fiscal 2006 compared to ten months in the prior year. The increase is partially offset by a reduction of estimates of liabilities assumed with that acquisition of \$355,000, primarily in the second and third quarters of fiscal 2006. During fiscal 2006, it was determined through review of the liabilities and confirmation with Glyphics vendors that these liabilities were not owed and could be eliminated as a one-time reduction to expenses. Cost of software and audio services revenues for the 12 months ended March 31, 2005 and March 31, 2004 were \$3.8 million and \$526,000, respectively, an increase of \$3.3 million. This increase is primarily a result of the acquisition of the Glyphics' audio conferencing assets and business in June of 2004.

Cost of maintenance and professional services revenue include an allocation of technical support costs related to the maintenance services, an overhead allocation consisting primarily of a portion of our facilities costs, communications and depreciation expenses that are attributable to providing these services and third party costs related to our custom content revenues. Cost of maintenance and professional services for the 12 months ended March 31, 2006 and March 31, 2005 was \$827,000 and \$792,000, respectively, an increase of \$35,000. Cost of maintenance and professional services revenue for the 12 months ended March 31, 2005 and March 31, 2004 was \$792,000 and \$1.2 million,

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respectively, a decrease of \$456,000. This decrease is primarily attributable to a decrease of \$640,000 in revenue from custom content contracts.

Amortization of acquired developed technology consists of amortization of acquired software technology from the Mentergy, Glyphics, and Quisic acquisitions. Amortization of acquired technology for the 12 months ended March 31, 2006 and March 31, 2005 was \$376,000 and \$451,000, respectively, a decrease of \$75,000 which is related to the full amortization of the software technology from the Mentergy and Quisic acquisitions.

Amortization of acquired developed technology for the 12 months ended March 31, 2005 and March 31, 2004 was \$451,000 and \$233,000, respectively, an increase of \$218,000, due primarily to the amortization of the Glyphics software technology.

### OPERATING EXPENSES FROM CONTINUING OPERATIONS

Operating expenses from continuing operations consist of research and development, sales and marketing, general and administrative expenses. The Company incurred operating expenses from continuing operations of \$6.7 million in fiscal 2006, a decrease of \$1.8 million from \$8.5 million in fiscal 2005. This decrease is due to a decrease in research and development costs of \$153,000, a decrease in sales and marketing costs of \$1.0 million and a decrease in general and administrative costs of \$737,000.

Fiscal 2005 operating expenses from continuing operations were \$8.5 million, a \$3.4 million increase from fiscal 2004 operating expenses of \$5.1 million. The increase is primarily due to an increase in research and development costs of \$511,000, an increase in sales and marketing costs of \$1.9 million and an increase in general and administrative costs of \$1.1 million.

Research and development expenses from continuing operations represent expenses incurred in connection with the provision of Web and audio conferencing services, development of new products and new product versions and consist primarily of salaries and benefits, communication equipment and supplies. Research and development expenses for fiscal 2006 and fiscal 2005 were \$1.4 million and \$1.5 million respectively, a decrease of \$153,000. The decrease is primarily the result of decreased salaries and benefits of \$178,000 related to an overall decrease in the number of employees.

Fiscal 2005 research and development expenses from continuing operations were \$1.5 million, an increase of \$511,000 from fiscal 2004 research and development expenses of \$1.0 million. The increase is primarily the result of increased salaries and benefits of \$302,000 related to an overall increase in the number of employees and additional compensation and benefits of \$215,000 as a result of the Glyphics acquisition.

Sales and marketing expenses from continuing operations consist primarily of sales and marketing salaries and benefits, travel, advertising, and other marketing literature. Sales and marketing expenses were \$3.1 million and \$4.1 million for fiscal 2006 and fiscal 2005, respectively, a decrease of \$1.0 million. The decrease is primarily a result of decreased salaries and related benefits of \$547,000 due to a decrease in the average number of sales and marketing employees, decreases in marketing expenses of \$298,000 related to lead generation activities, trade show attendance, and advertising costs. As a result of management's cost reduction program that was implemented in August 2005,

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overall overhead was reduced primarily in the second and third quarter of fiscal 2006. In 2006 as compared to 2005, travel and entertainment expenses decreased \$51,000, recruiting fees decreased by \$57,000 and general office and other overhead expenses decreased by \$154,000. This amount also included costs related to the amortization of customer lists and intangibles from the Glyphics acquisition of \$200,000 in fiscal 2006.

Sales and marketing expenses were \$4.1 million and \$2.2 million for fiscal 2005 and fiscal 2004, respectively, an increase of \$1.9 million. The increase is primarily a result of increased salaries and related benefits of \$787,000 due to an increase in the average number of sales and marketing employees, increases in marketing expenses of \$487,000 related to lead generation activities, trade show attendance, and advertising costs. This amount also included costs directly associated with sales and marketing expenses related to the Glyphics acquisition of \$321,000 and costs related to the amortization of customer lists and intangibles from the Glyphics acquisition of \$167,000.

Advertising costs are expensed as incurred. The Company's advertising expense at March 31, 2006, 2005 and 2004 was \$40,000, \$22,000 and \$122,000, respectively.

General and administrative expenses from continuing operations consist of the corporate expenses of the Company. These corporate expenses include salaries and benefits of executive, finance, and administrative personnel, rent, bad debt expense, professional services, travel, office costs, and other general corporate expenses. During fiscal 2006 and 2005, general and administrative expenses from continuing operations were \$2.2 million and \$2.9 million, respectively, a decrease of \$737,000. General and administrative expenses decreased primarily due to a cost cutting initiative led by management, which took effect primarily in the second and third quarters of fiscal 2006. The overall decrease in general and administrative expense was primarily comprised of a decrease in bad debt expense of \$102,000, salaries and related benefits of \$21,000, contract labor of \$61,000, accounting fees of \$198,000, consulting fees of \$94,000, recruiting fees of \$33,000, legal fees of \$21,000 and investor relations expense of \$23,000. Tax liabilities also decreased by \$83,000 of which \$81,000 related to the release of a tax liability that was recorded as an estimate as part of the Glyphics acquisition. After further review and confirmation from the tax authority, the Company determined that the tax liability would not be realized, and therefore the liability was eliminated and a corresponding reduction of the expense was recorded as a one-time reduction.

During fiscal 2005 and 2004, general and administrative expenses from continuing operations were \$2.9 million and \$1.8 million, respectively, an increase of \$1.1 million. General and administrative expenses increased primarily due to the expansion of the business, which included the Glyphics acquisition. The overall increase in general and administrative expense was primarily comprised of an increase in bad debt expense of \$331,000, salaries and related benefits of \$208,000, accounting fees of \$166,000, consulting fees of \$145,000, warrant expense of \$91,000, and investor relations expense of \$85,000.

### INTEREST EXPENSE FROM CONTINUING OPERATIONS

Interest expense from continuing operations was \$1.9 million in fiscal 2006 and in fiscal 2005. Interest expense from continuing operations increased from \$1.2 million in fiscal 2004 to \$1.9 million in fiscal 2005 primarily as a result of the \$3.2 million issuance on senior notes and debt acquired from Glyphics.

### INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

The Company recorded no tax benefit during fiscal 2006 because it

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concluded it is not likely it would be able to recognize the tax asset created due to the lack of operating history of its Web and audio conferencing business strategy. At March 31, 2006, the Company has a net deferred tax asset of \$13,627,000 with a corresponding valuation allowance. The Company's tax benefits are scheduled to expire over a period of five to 13 years.

The Company recorded no tax expense during fiscal 2006 and 2005 as a result of the losses it incurred in those years and did not record a tax benefit during fiscal 2004 due to the utilization of its fully reserved net operating loss carry-forward.

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### RESULTS OF DISCONTINUED OPERATIONS

Effective January 1, 2004, the Company discontinued its dental practice management services. Results of operations from this segment are presented as discontinued operations for the fiscal years ended March 31, 2006, 2005, and 2004 in accordance with SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities."

Net income/(loss) from discontinued operations for fiscal 2006, 2005 and 2004 was \$83,000, (\$128,000), and \$275,000, respectively. Cash flows (used in)/provided by discontinued operations were (\$13,000), \$116,000, and \$387,000 during the fiscal years 2006, 2005, and 2004, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, the Company had a working capital deficit of \$1.9 million. Current assets included \$466,000 in cash and \$2.2 million in net accounts receivable and \$42,000 in prepaids and other assets. Current liabilities consisted of \$917,000 of deferred revenue, \$269,000 of current maturities of long-term debt and capital leases and \$3.5 million in accounts payable and accrued liabilities.

We have generated cash from operations during 2006, specifically \$457,000 in the third quarter and \$249,000 in the fourth quarter, resulting in net cash provided by operating activities of \$634,000 for the year ending March 31, 2006. Subsequent to March 31, 2006, the Company raised \$2,000,000 of gross proceeds in a private placement of 5.4 million shares of common stock. A portion of the Company's plans to address its working capital deficiency includes further reductions in overhead and continued development, marketing and licensing of our iLinc suite of products and services through the internal sales efforts and external channel partnerships. Although we continue to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient revenues from its Web conferencing and audio conferencing products and services to provide adequate cash flows to sustain our operations.

### CASH FLOWS FROM CONTINUING OPERATIONS

Cash provided by operating activities was \$634,000 during fiscal 2006. Cash used in operating activities was \$2.6 million during fiscal 2005. Cash provided by operating activities during fiscal 2006 was primarily attributable to non-cash expenses of depreciation and amortization of \$1.7 million, accretion of debt discount to interest expense of \$626,000 and net debt conversion expense of \$249,000. These items were partially offset by increases in accounts



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receivable of \$352,000, decreases in accounts payable and accrued liabilities of \$452,000 and a net loss of \$1.2 million.

Cash used in operating activities was \$2.6 million during fiscal 2005. Cash used in operating activities during fiscal 2005 was primarily attributable to a net loss of \$5.2 million and increases in accounts receivable of \$450,000. These items were partially offset by increases in accounts payable and accrued liabilities of \$465,000 and non-cash expenses and revenues totaling \$2.6 million.

Cash used in operating activities during fiscal 2004 was \$1.1 million and was primarily attributable to a net loss of \$2.3 million and an increase in accounts receivable of \$352,000. These items were partially offset by increases in accounts payable and accrued liabilities of \$753,000 and non-cash expenses and revenues totaling \$1.0 million.

Cash used by investing activities was \$292,000, \$194,000, and \$364,000 in fiscal years 2006, 2005, and 2004, respectively. Cash used by investing activities during fiscal 2006 was primarily due to acquisition royalty earnout of \$261,000 and capital expenditures of \$55,000. Cash used by investing activities during fiscal 2005 was primarily due to capital expenditures of \$153,000. Cash used by investing activities during fiscal 2004 was primarily due to capital expenditures of \$66,000 and acquisitions, net of cash acquired of \$367,000.

Cash used in financing activities was \$395,000 during fiscal 2006. Cash provided in financing activities was \$2.9 million during fiscal 2005 and \$926,000 during fiscal 2004. Cash used in financing activities in fiscal 2006 was primarily a result of repayment of long-term debt and capital lease liabilities of \$308,000 and \$157,000, respectively. Cash provided by financing activities during fiscal 2005 was primarily due to proceeds from the issuance of long-term debt of \$4.3 million, partially offset by the repayment of long-term debt and capital lease liabilities of \$514,000 and \$328,000, respectively. Cash provided by financing activities during fiscal 2004 was primarily due to proceeds from the issuance of preferred stock of \$1.5 million and issuance of long-term debt of \$500,000. These were partially offset by the repayment of long-term debt and capital lease liabilities of \$559,000 and \$242,000, respectively and \$212,000 in financing costs.

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### ACTIVITIES RELATED TO ACQUISITIONS AND CAPITAL RAISE ACTIVITIES

In connection with the Company's initial public offering (IPO) in March of 1998, the Company issued notes to certain shareholders who had provided capital prior to the IPO. These notes were originally due in April of 2005 and required quarterly payments of interest only at the rate of 10%. During the first quarter of fiscal 2006, many of the noteholders agreed to extend the maturity date and accept installment payments that were due during the year ended March 31, 2006. The outstanding principal balance on these notes is \$157,000 as of March 31, 2006. The Company has agreed to make installment payments for the outstanding principal balance plus accrued interest. As of March 31, 2006, the Company owed installment payments for principal of \$87,000 on those IPO Notes, with no claims of default by the holders of the outstanding IPO notes.

In March 2002, the Company completed a private placement offering (the "Convertible Note Offering") raising capital of \$5,775,000 that was used to

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extinguish an existing line of credit. Under the terms of the Convertible Note Offering, the Company issued unsecured subordinated convertible notes (the "Convertible Notes"). The Convertible Notes bear interest at the rate of 12% per annum and require quarterly interest payments, with the principal due at maturity on March 29, 2012. The holders of the Convertible Notes may convert the principal into shares of the Company's common stock at the fixed price of \$1.00 per share. The Company may force redemption by conversion of the principal into common stock at the fixed conversion price, if at any time the 20 trading day average closing price of the Company's common stock exceeds \$3.00 per share. The notes are subordinated to any present or future senior indebtedness. As a part of the Convertible Note Offering the Company also issued warrants to purchase 5,775,000 shares of the Company's common stock for an exercise price of \$3.00 per share. Those warrants expired on March 29, 2005 without exercise. The fair value of the warrants was estimated using a Black-Scholes pricing model with the following assumptions: contractual and expected life of three years, volatility of 75%, dividend yield of 0%, and a risk-free rate of 3.87%. A discount to the Convertible Notes of \$1,132,000 was recorded using this value, which is being amortized to interest expense over the 10-year term of the Convertible Notes. As the carrying value of the notes is less than the conversion value, a beneficial conversion feature of \$1,132,000 was calculated and recorded as an additional discount to the notes and is being amortized to interest expense over the 10 year term of the Convertible Notes. Upon conversion, any remaining discount and beneficial conversion feature will be expensed in full at the time of conversion. During fiscal 2004, holders with a principal balance totaling \$150,000 converted their notes into 150,000 common shares of the Company. During fiscal 2006, holders with a principal balance of \$525,000 converted their notes and \$8,000 of accrued interest into 1,971,088 shares of the Company's common stock that had been registered with the SEC at a price of \$0.25, \$0.26 and \$0.30 per share. Since the actual conversion price for the convertible debt was less than the fixed conversion price of \$1.00, the Company recorded conversion expense of \$338,000 for the year ending March 31, 2006. During fiscal 2006, the Company accelerated the amortization of the deferred offering costs and the discount and beneficial conversion feature associated with the debt by expensing \$50,000 and \$137,000, respectively at the time of conversion.

On September 16, 2003, the Company completed its private placement of series A convertible preferred stock (the "Series A Preferred Stock") with detachable warrants. The Company sold 30 units at \$50,000 each and raised a total of \$1,500,000. Each unit consisted of 5,000 shares of Series A Preferred Stock, par value \$0.001 and a warrant to purchase 25,000 shares of common stock. The Series A Preferred Stock is convertible into the Company's common stock at a price of \$0.50 per share, and the warrants are immediately exercisable at a price of \$1.50 per share with a three-year term. Accordingly, each share of preferred stock is convertible into 20 shares of common stock and retains a \$10 liquidation preference. The Company pays an 8% dividend to holders of the Series A Preferred Stock, and the dividend is cumulative. The Series A Preferred Stock is non-voting and non-participating. The shares of Series A Preferred Stock will not be registered under the Securities Act of 1933, as amended, and were offered in a private placement providing exemption from registration. The cash proceeds of the private placement of Series A Preferred Stock were allocated pro rata between the relative fair values of the Series A Preferred Stock and warrants at issuance using the Black-Scholes valuation model for valuing the warrants. The aggregate value of the warrants and the beneficial conversion discount of \$247,000 are considered a deemed dividend in the calculation of loss per share. During the 2005 fiscal year, holders of 22,500 shares of Series A Preferred Stock converted those shares into 450,000 shares of the Company's common stock. The underlying common stock that would be issued upon conversion of the Series A Preferred Stock and upon exercise of the associated warrants have been registered with the SEC and may be sold pursuant to a resale prospectus dated May 24, 2004.

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In April of 2004, the Company completed a private placement offering of unsecured senior notes (the "2004 Senior Note Offering") that provided gross proceeds of \$4.25 million. Under the terms of the 2004 Senior Note Offering, the Company issued \$3,187,000 in unsecured senior notes and 1,634,550 shares of the Company's common stock. The senior notes were issued as a series of notes pursuant to a unit purchase and agency agreement. The senior notes are unsecured. The placement agent received a commission equal to 10% of the gross proceeds together with a warrant for the purchase of 163,455 shares of the Company's common stock with an exercise price equal to 120% of the price paid by investors. The senior notes bear interest at a rate of 10% per annum and accrued interest is due and payable on a quarterly basis beginning July 15, 2004, with principal due at maturity on July 15, 2007. The senior notes are redeemable by the Company at 100% of the principal value at any time after July 15, 2005. The notes and common stock were issued with a debt discount of \$768,000. The fair value of the warrants was estimated and used to calculate a discount of \$119,000 of which \$68,000 was allocated to the notes and \$51,000 was allocated to equity. The total discount allocated to the notes of \$836,000 is being amortized as a component of interest expense over the term of the notes which is approximately 39 months. The senior notes are unsecured obligations of the Company but are senior in right of payment to all existing and future indebtedness of the Company. The common stock issued in the 2004 Senior Note Offering was registered with the SEC pursuant to a resale prospectus dated August 2, 2005. Effective August 1, 2005, holders with a principal balance totaling \$225,000 converted their senior notes and accrued interest of \$800 into 903,205 shares of the Company's common stock at a price of \$0.25 per share. Since the actual conversion price for the debt was greater than the market value of the stock at the date of conversion, the Company recorded a gain on conversion of \$9,000 for the period ended December 31, 2005. During fiscal 2006, the Company accelerated the amortization of the deferred offering costs and the discount associated with the debt by expensing \$10,000 and \$35,000, respectively at the time of conversion. On November 9, 2005, placement agent warrants originally issued with an exercise price of \$0.78 per common share were converted to 163,455 common shares at an exercise price of \$0.25 per share, in which the Company received \$41,000 in cash. The transaction resulted in an increase in deferred offering costs of \$7,000 and an adjustment to additional paid-in capital of \$7,000.

On June 3, 2004, the Company executed an agreement to acquire substantially all of the assets of and assume certain liabilities of Glyphics Communications, Inc., ("Glyphics"), a Utah based private company, and a provider of comprehensive audio conferencing products and services. The acquisition had a stated effective date of June 1, 2004 and was fully consummated on June 14, 2004. The purchase price was \$5.349 million. The purchase price was paid with the assumption of \$2.466 million in specific liabilities, with the balance paid using the Company's common stock, which included the issuance of 2,820,355 shares valued at \$0.98 per share upon execution of the agreement, and 308,133 shares valued at \$0.39 per share upon release of escrow pending the settlement of certain acquisition contingencies.

Subsequent to March 31, 2006, 704,839 shares were released from escrow related to the acquisition of Glyphics. Of that amount, 396,706 were returned to iLinc Communications due to the Company assuming obligations of \$377,815 greater than scheduled in the purchase agreement. The remaining 308,133 shares were issued to the Glyphics shareholders at \$0.39 per share based on the closing price of the agreement date of April 18, 2006. These shares were recorded as outstanding on March 31, 2006 pursuant to the terms of the Escrow Agreement.

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On September 30, 2005, the Company executed definitive agreements with nine investors to issue 70,000 unregistered shares of its Series B Preferred Stock, par value \$0.001 (the "Series B Preferred Stock") and warrants to purchase 700,000 shares of its common stock (the "Warrants") in a private transaction that was exempt from registration under Section 4(2) of the Securities Act of 1933. Of the total Series B Preferred Stock issued, 15,000 shares of Series B Preferred Stock with Warrants to purchase 150,000 shares of common stock were issued to four individuals in exchange for their cash investment of \$150,000; 15,000 shares of Series B Preferred Stock with Warrants to purchase 150,000 shares of common stock were issued to two vendors in exchange for an offset of their accounts payable balance in the amount of \$150,000; and 40,000 shares of Series B Preferred Stock with Warrants to purchase 400,000 shares of common stock (effective August 29, 2005 as previously disclosed on Form 8-K dated September 2, 2005) were issued to three institutional investors in exchange for the offset of accrued liabilities in the amount of \$400,000 that arose from the Quisic acquisition. The Company recorded a gain on debt conversion of \$50,000 associated with this transaction since the liabilities outstanding were \$450,000 at the time of the transaction. The Series B Preferred Stock bears an 8% dividend, was sold using a deemed \$10.00 per share issue price, and is convertible into 2,800,000 shares of the Company's common stock using a conversion price of \$0.25 per share. The Warrants that are exercisable at an exercise price equal to \$0.50 per share expire on the third anniversary of the issue date of September 30, 2005. The aggregate value of the warrants of \$55,000 is considered a deemed dividend in the calculation of loss per share.

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Subsequent to March 31, 2006, on June 9, 2006, the Company completed a private placement of 5,405,405 unregistered, restricted shares of common stock for approximately \$1.7 million in net cash proceeds. The Company paid its placement agent an underwriting commission of \$180,000 of which \$25,000 was recorded as deferred offering costs at March 31, 2006 and incurred additional offering expenses of approximately \$50,000. Within 30 days of the closing date, the Company will file a Registration Statement on Form S-3 to enable the resale of the shares by the investors. The Company intends to use the proceeds for working capital and general corporate purposes.

### CONTRACTUAL OBLIGATIONS

The following schedule details all of the Company's indebtedness and the required payments related to such obligations at March 31, 2006 (IN THOUSANDS):

	TOTAL	DUE IN LESS THAN ONE YEAR	DUE IN YEAR TWO	DUE IN YEAR THREE	DUE IN Y FOUR A FIVE
Long term debt.....	\$ 8,666	\$ 199	\$ 3,364	\$ 2	\$
Capital lease obligations.....	70	70	--	--	
Interest Expense.....	4,099	953	698	612	1,2
Operating lease obligations...	2,072	539	412	282	5
Base salary commitments under employment agreements.....	774	399	375	--	

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Total contractual obligations.	\$ 15,681	\$ 2,160	\$ 4,849	\$ 896	\$ 1,7
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The lease obligations above include commitments in accordance with amendments to the lease for the Phoenix location that was renegotiated and extended subsequent to March 31, 2006 (see Note 17).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The more significant areas requiring use of estimates relate to revenue recognition, accounts receivable and notes receivable valuation reserves, realizability of intangible assets, realizability of deferred income tax assets, and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of such estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

REVENUE RECOGNITION

Our revenues are generally classified into three main categories: license revenue, software and audio service revenue and maintenance and professional service revenue. License revenue is generated from the sale of our iLinc suite of Web conferencing software on a software purchase model basis and from the sale of our off-the-shelf courseware, primarily the online Bridge (Mini-MBA) program. Software and audio service revenue is generated from the sale of our iLinc Suite of Web conferencing software on an Application Service Provider ("ASP") model basis, the sale of our iLinc Suite software on a per-minute basis, and includes all revenue from the provision of audio conferencing services, as well as, all service contracts that might include hosting and training services. Maintenance and professional service revenue is generated from the sale of maintenance contracts related to our iLinc suite of Web conferencing software on a purchase model basis, when hosted by the customer, and from the sale of professional services that are associated with our custom content development services.

Sales of Software Licenses

Because we offer the iLinc Suite software in one of two forms, the first being a purchase model and the second being an ASP or per-minute model, we

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have separate revenue recognition policies applicable to each licensing model. With each sale of our Web conferencing products and services, we execute written contracts with our customers that govern the terms and conditions of each software license sale, hosting agreement, maintenance and support agreement, and other services arrangements. We do not typically execute written agreements for the sale of audio conferencing services.

In connection with the Company's sales of software licenses, whether on a purchase model basis or periodic license basis, the Company adopted Statement of Position ("SOP") 97-2 "Software Revenue Recognition" as issued by the American Institute of Certified Public Accountants. In accordance with SOP 97-2, the Company recognizes revenue from the sale of software licenses if all of the following conditions are met: first, there is persuasive evidence of an arrangement with the customer; second, the product has been delivered to the customer; third, the amount of the fees to be paid by the customer is fixed or determinable; and, fourth, collection of the fee is probable.

Each of these factors, particularly the determination of whether a fee is fixed and determinable and the collectability of the resulting receivable, requires the application of the judgment and the estimates of management. Therefore, significant management judgment is utilized and estimates must be made in connection with the revenue we recognize in any accounting period. We analyze various factors, including a review of the nature of the license or product sold, the terms of each specific transaction, the vendor specific objective evidence of the elements required by SOP 97-2, any contingencies that may be present, our historical experience with like transactions or with like products, the creditworthiness of the customer, and other current market and economic conditions. Changes in our judgment based upon these factors and others could impact the timing and amount of revenue that we recognize, and ultimately the results of operations and our financial condition. Therefore, the recognition of revenue is a key component of our results of operations.

At the time of the sale of our software license on a purchase license basis, we assess whether the fee associated with the transaction is fixed or determinable based on the payment terms associated with the transaction before recording immediate revenue recognition, assuming all other elements of revenue recognition are present. Billings to our customers are generally due within 30 to 90 days, with payment terms up to 180 days available to certain credit worthy customers. We believe that we have sufficient history of collecting all amounts within these normal payment terms and to conclude that the fee is fixed or determinable at the time of the perpetual license sale. We consider all arrangements with payment terms longer than 180 days not to be fixed or determinable and for arrangements involving the extended payment terms exceeding 180 days, revenue recognition occurs when payments are collected, assuming all other elements of revenue recognition are present.

In addition, in assessing whether collection is probable or not for a given transaction, and therefore whether we should recognize the revenue, we make estimates regarding the creditworthiness of the customer. Initial creditworthiness is assessed through internal credit check processes, such as credit applications or third party reporting agencies. Creditworthiness for transactions to existing customers primarily relies upon a review of their prior payment history. We do not request collateral or other security from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon the receipt of payment or other change in circumstance.

During Fiscal 2006, iLinc launched its Enterprise Unlimited perpetual licensing model, that enables customers to pay a one-time up-front fee for unlimited, organization-wide Web conferencing, with revenue recognized at the time of the sale of the Enterprise Unlimited perpetual license. The annual

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maintenance and support fees and hosting fees associated with an iLinc Enterprise Unlimited license are based upon a fixed rate per seat license that is active on each annual anniversary of the iLinc Enterprise Unlimited license agreement and that is approximately equivalent to the 15% to 18% charged for concurrent seat perpetual license contracts.

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Customers may expand the number of active seats available to them at any time with a corresponding increase in annual maintenance and hosting fees being charged with the additional revenue recognized on a straight-line basis over the period of the contract.

### Sales of Concurrent Licenses on an ASP and Per-Minute Basis

Historically and on a continuing basis, a majority of our license revenue has been generated under the software purchase model basis, with revenue recognized based on a one-time sale of a perpetual license. In addition to that purchase model software sale, we also offer a more flexible concurrent connection seat license and a pay-per-minute usage based model. Under our ASP model, a customer may subscribe to a certain number of concurrent connections or seats for a fixed period, often a year. Under this ASP method, we recognize the revenue associated with these monthly, fixed-fee subscription arrangements each month on a straight-line basis over the term of the agreement. Other customers choose to avoid annual commitments and instead use our Web conferencing and audio conferencing products and services based upon a per-minute or usage-based pricing model. Per-minute customers may also include those customers on an ASP model that incur overage fees for usage in excess of the permitted number of seats or minutes in excess of the minimum commitment. The per-minute fees that include overage fees are charged at the end of each month and recorded as revenue at the end of each month as the services are provided. Customers with contractually established minimum per-minute fees are assessed the greater of the established minimum or the actual usage at the end of each month. Customers wishing to avoid monthly commitments may use the e-commerce portion of our Web site that permits the use of our Web conferencing services on a pay-per-use basis, with no monthly minimum, purchasing the services and paying for those services online by credit card.

### Sales of Maintenance, Hosting, and Other Related Services

The Company offers with each sale of its software products a software maintenance, upgrade, and support arrangement. These contracts may be elements in a multiple-element arrangement or may be sold in a stand-alone basis. Revenues from maintenance and support services are recognized ratably on a straight-line basis over the term that the maintenance service is provided. Maintenance contracts typically provide for 12-month terms with maintenance contracts available up to 36 months. The Company typically charges 15% to 18% of the software purchase price for a 12-month contract with discounts available for longer-term agreements. The annual maintenance and support fees and hosting fees associated with an iLinc Enterprise Unlimited license are based upon a fixed rate per seat license that is active on each annual anniversary of the iLinc Enterprise Unlimited license agreement and that is approximately equivalent to the 15% to 18% charged for concurrent seat perpetual license contracts.

The Company also typically charges 5% to 10% for hosting of purchase model software sales for customers who do not wish to install and host the iLinc

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Suite on their own premises or that of a co-location facility. Charges for hosting are likewise spread ratably over the term of the hosting agreement, with the typical hosting agreement having a term of 12 months, with renewal on an annual basis.

Revenues from consulting, training, and education services are recognized either as the services are performed, ratably over a subscription period, or upon completing a project milestone if defined in the agreement. These consulting, training, and education services, are not considered essential to the functionality of our products as these services do not alter the product capabilities, do not require specialized skills, and are often performed by the customer or our VAR's customers without access to those services.

Implementation, consulting, training, translation, and other event-type services may also be sold in conjunction with the sale of our software products. Those services are generally recognized as the services are performed or earlier when all other revenue recognition criteria have been met. Although the Company may provide implementation, training, and consulting services on a time and materials basis, a significant portion of these services have been provided on a fixed-fee basis.

Should the sale of our software involve an arrangement with multiple elements (for example, the sale of a software license along with the sale of maintenance and support to be delivered over the contract period), we allocate revenue to each component of the arrangement using the residual-value method based on the fair value of the undelivered elements. We defer revenue from the arrangement equivalent to the fair value of the undelivered elements and recognize the remaining amount at the time of the delivery of the product or when all other revenue recognition criteria have been met. Fair values for the ongoing maintenance and support obligations are based upon separate sales of renewals of maintenance contracts. Fair value of services, such as training or consulting, is based upon separate sales of these services to other customers. Thus, these types of arrangements require us to make judgments about the fair value of undelivered arrangements.

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### Sales of Custom Content Development Services

A component of our maintenance and professional services revenue is derived from custom content development services. The sale of custom content development services often involves the execution of a master service agreement and corresponding work orders describing the deliverable due, the costs involved, the project milestones, and the payments required. These custom content development services are primarily outsourced to a subcontractor, Interactive Alchemy. For contracts and revenues related exclusively to custom content development services, the Company recognizes revenue and profit as work progresses on custom content service contracts using the percentage-of-completion method. This method relies on estimates of total expected contract revenue and costs as each job progresses throughout the relevant contract period. The Company follows this method since reasonably dependable estimates of the costs applicable to various stages of a custom content service contract can be made. Recognized revenues and profit are subject to revisions as the custom content service contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. Customers sometimes request modifications to projects in progress which may result in significant revisions



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to cost estimates and profit recognition, and the Company may not be successful in negotiating additional payments related to the changes in scope of requested services. Should this arise, the provision for any estimated losses on uncompleted custom content service contracts are made in the period in which such losses become evident. There were no such losses at March 31, 2006 for any custom content development services. For arrangements requiring customer acceptance, revenue is deferred until the earlier of the end of the acceptance period or until written notice of acceptance is received from the customer.

### Sales by VARs and Agents

The Company has engaged organizations within the United States of America and in 12 other countries that market and sell its products and services through their sales distribution channels that are value added resellers (VARs). The VARs primarily sell, on a non-exclusive basis, our iLinc suite of Web conferencing products and predominately sell purchase-model perpetual licenses for installation and hosting by the VAR's customer. The Company's VAR contracts have terms of one to two years and are automatically renewed for an additional like term unless either party terminates the agreement for breach or other financial reasons. Each VAR purchases the product from the Company and resells the product to its customers. Under those VAR agreements, the Company records only the amount paid by the VAR as revenue and recognizes revenue when all revenue recognition criteria have been met. The Company also engages organizations that act as mere agents or distributors of its products ("Agents"), without title passing to the Agent and with the Agent only receiving a commission on the consummation of the sale to our customer. The Company records revenue on sales by Agents on a gross basis before commissions due to the Agent and only when all revenue recognition criteria are met as would be with a sale by the Company directly to a customer not involving an agent.

### Sales Reserves

The sales reserve is an estimate for losses on receivables resulting from customer credits, cancellations and terminations and is recorded, if at all, as a reduction in revenue at the time of the sale. Increases to sales reserve are charged to revenue, reducing the revenue otherwise reportable. The sales reserve estimate is based on an analysis of the historical rate of credits, cancellations, and terminations. The accuracy of the estimate is dependent on the rate of future credits, cancellations, and terminations being consistent with the historical rate. If the rate of actual credits, cancellations and terminations is different than the historical rate, revenue would be different from what was reported. As of March 31, 2006, we did not believe that an accrual for sales reserves was necessary, and we will continue to assess the adequacy of the sales reserve account balance on a quarterly basis.

### Allowance for Doubtful Accounts

We record an allowance for doubtful accounts to provide for losses on accounts receivable due to customer credit risk. Increases to the allowance for doubtful accounts are charged to general and administrative expense as bad debt expense. Losses on accounts receivable due to financial distress or failure of the customer are charged to the allowance for doubtful accounts. The allowance estimate is based on an analysis of the historical rate of credit losses. The accuracy of the estimate is dependent on the future rate of credit losses being consistent with the historical rate. If the rate of future credit losses is greater than the historical rate, then the allowance for doubtful accounts may not be sufficient to provide for actual credit losses.

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The allowance for doubtful accounts is, as of March 31, 2006, \$120,000 and \$84,000, respectively, as March 31, 2006 and 2005 and is based on our historical collection experience. Any adjustments to these accounts are reflected in the income statement for the current period, as an adjustment to revenue in the case of the sales reserve and as a general and administrative expense in the case of the allowance for doubtful accounts.

### SOFTWARE DEVELOPMENT COSTS

The Company accounts for software development costs in accordance with Statements of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," whereby costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. Technological feasibility is established upon completion of a working model. Costs of maintenance and customer support are charged to expense when related revenue is recognized or when those costs are incurred, whichever occurs first. Software development costs incurred subsequent to the establishment of technological feasibility have not been significant to date, and all software development costs have been charged to research and development expense in the accompanying consolidated statements of operations.

### INTANGIBLE ASSETS

On April 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" and as a result, the Company's goodwill is no longer amortized. SFAS No. 142 requires that goodwill be tested annually (or more frequently if impairment indicators arise) for impairment. Upon initial application of SFAS No. 142, the Company determined there was no impairment of goodwill. The Company has established the date of March 31 on which to value its goodwill.

The Company has made acquisitions of companies having operations or technology in areas within its strategic focus and has recorded goodwill and other intangible assets associated with its acquisitions. Future adverse changes in market conditions or poor operating results of the underlying acquired operations could result in losses or an inability to recover the carrying value of the goodwill and other intangible assets thereby possibly requiring an impairment charge in the future. The Company, based in part on a third party full scope valuation with a valuation date of March 31, 2006, has determined that impairment of that goodwill and intangible assets was not required. Based upon that third party valuation and further analysis performed, the Company's management believes no such impairment exists at March 31, 2006.

Debt issuance costs are amortized using the straight-line method over the term of the related debt obligations.

Other intangibles primarily consist of the LearnLinc and Glyphics purchase consideration that was allocated to purchased software and customer relationship intangibles. Such other intangibles are amortized over their expected benefit period of 24 to 72 months.

### INCOME TAXES

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

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

### STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment to SFAS No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method on accounting for stock-based employee compensation. The Company has adopted the disclosure provisions of SFAS No. 123 and accordingly the implementation of SFAS No. 148 did not have a material affect on the Company's consolidated financial position or results of operations.

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In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). Under this new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and to recognize the expense over the service period. SFAS 123R will be effective for periods beginning after June 15, 2005 and allows for several alternative transition methods. The Company expects to adopt SFAS 123R in its first quarter of fiscal 2007 on a prospective basis, which will require recognition of compensation expense for all stock option or other equity-based awards that vest or become exercisable after the effective date. We are currently assessing the impact of this proposed Statement on our share-based compensation programs, however, we expect that the requirement to expense stock options and other equity interests that have been or will be granted to employees will increase our operating expenses and result in lower earnings per share.

### GUARANTEES AND INDEMNIFICATIONS

The Company provides a limited 90-day warranty for certain of its software products. Historically, claims by customers under this limited warranty have been minimal, and as such, no warranty accrual has been provided for in the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others -- an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FIN 34." The following is a summary of the Company's agreements that the Company has determined are within the scope of FIN No. 45.

Under its bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officers or directors serving in such capacity. The term of the indemnification period is for the officer or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification

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agreements is unlimited. However, the Company has a director and officer liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal and has no liabilities recorded for these agreements as of March 31, 2006.

The Company enters into indemnification provisions under (i) its agreements with other companies in its ordinary course of business, typically with business partners, contractors, and customers, landlords and (ii) its agreements with investors. Under these provisions the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of March 31, 2006.

### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). Under this new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and to recognize the expense over the service period. SFAS 123R will be effective for periods beginning after June 15, 2005 and allows for several alternative transition methods. The Company expects to adopt SFAS 123R in its first quarter of fiscal 2007 on a prospective basis, which will require recognition of compensation expense for all stock option or other equity-based awards that vest or become exercisable after the effective date. We are currently assessing the impact of this proposed Statement on our share-based compensation programs, however, we expect that the requirement to expense stock options and other equity interests that have been or will be granted to employees will increase our operating expenses and result in lower earnings per share.

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### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The following discusses our exposure to market risk related to changes in interest rates, equity prices and foreign currency exchange rates. Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and market prices. We have not traded or otherwise bought and sold derivatives nor do we expect to in the future. We also do not invest in market risk sensitive instruments for trading purposes.

We provide our products and services to customers in the United States, Europe and elsewhere throughout the world. Sales are predominately made in U.S. Dollars, however, we have sold products that were payable in Euros and Canadian Dollars. A strengthening of the U.S. Dollar could make our products and services less competitive in foreign markets.

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The primary objective of the Company's investment activity is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, the Company maintains its portfolio of cash equivalents in a variety of money market funds.

As of March 31, 2006, the carrying value of our outstanding convertible redeemable subordinated notes and unsecured senior notes was approximately \$8.2 million at fixed interest rates of 10% to 12%. In certain circumstances, we may redeem this long-term debt. Our other components of indebtedness of \$447,000 bear interest rates of 6% to 26.99%. Increases in interest rates could increase the interest expense associated with future borrowings, if any. We do not hedge against interest rate increases.

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

#### INDEX TO FINANCIAL STATEMENTS

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Consolidated Balance Sheets at March 31, 2006 and 2005.....	38
Consolidated Statements of Operations for the years ended March 31, 2006, 2005 and 2004 .....	39
Consolidated Statements of Shareholders' Equity for the years ended March 31, 2006, 2005 and 2004.....	40
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FINANCIAL STATEMENTS SCHEDULE:	
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All other schedules are omitted because they are not applicable.

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#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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To the Stockholders and Board of Directors  
of iLinc Communications, Inc. and Subsidiaries:

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We have audited the accompanying consolidated balance sheets of iLinc Communications, Inc. and subsidiaries as of March 31, 2006 and 2005 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 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 consolidated financial position of iLinc Communications, Inc. and its subsidiaries as of March 31, 2006 and 2005, and the consolidated results of its operations and cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Epstein, Weber & Conover, PLC  
Scottsdale, Arizona  
June 13, 2006

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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The Board of Directors and Shareholders  
iLinc Communications, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of iLinc Communications, Inc. for the year ended March 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated results of operations and cash flows of iLinc Communications, Inc. and its subsidiaries for the year ended March 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a significant working capital deficiency and has suffered substantial recurring losses and negative cash flows from operations. These matters, among others, raise substantial doubt about the Company's ability to continue as a going concern. The long-term continuation of the Company is dependent on the Company's ability to raise additional equity or debt capital, to increase its revenues, to generate positive cash flows from operations and to achieve profitability. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO Seidman, LLP

Costa Mesa, California  
May 21, 2004

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ILINC COMMUNICATIONS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE DATA)

	MARCH 31 2006 -----
ASSETS	
Current assets:	
Cash and cash equivalents .....	\$ 466
Accounts receivable, net of allowance for doubtful accounts of \$120 and \$84, at March 31, 2006 and 2005, respectively .....	2,207
Note receivable .....	12
Prepaid expenses and other current assets .....	30
	-----
Total current assets .....	2,715
Property and equipment, net .....	336
Goodwill .....	11,206
Intangible assets, net .....	1,731
Other assets .....	12
Assets of discontinued operations .....	--
	-----
Total assets .....	\$ 16,000

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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt .....	\$ 199
Accounts payable and accrued liabilities .....	3,470
Current portion of capital lease liabilities .....	70
Deferred revenue .....	917
<hr/>	
Total current liabilities .....	4,656
Long-term debt, less current maturities, net of discount and beneficial conversion feature of \$1,493 and \$2,120, at March 31, 2006 and 2005, respectively .....	6,974
Capital lease liabilities, less current maturities .....	--
<hr/>	
Total liabilities .....	11,630

Commitments and contingencies

Shareholders' Equity:

Preferred stock series A and B, 10,000,000 shares authorized:	
Preferred stock series A, \$.001 par value, 127,500 and 127,500 shares issued and outstanding, liquidation preference of \$1,275,000 and \$1,275,000, at March 31, 2006 and 2005, respectively .....	--
Preferred stock series B, \$.001 par value, 70,000 and no shares issued and outstanding, liquidation preference of \$700,000 and \$0, at March 31, 2006 and 2005 respectively .....	--
Common stock, \$.001 par value, 100,000,000 shares authorized, 28,923,168 and 25,577,287 issued, at March 31, 2006 and 2005, respectively .....	29
Additional paid-in capital .....	44,228
Accumulated deficit .....	(38,479)
Less: 1,432,412 treasury shares at cost .....	(1,408)
<hr/>	
Total shareholders' equity .....	4,370
<hr/>	
Total liabilities and shareholders' equity .....	\$ 16,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ILINC COMMUNICATIONS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED MARCH 31, 2006	YEAR ENDED MARCH 31, 2005	YEAR ENDED MARCH 2004
	-----	-----	-----
Revenues			
Software Licenses .....	\$ 3,014	\$ 3,274	\$ 2,2
Software and audio services .....	7,070	5,052	1,1



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Maintenance and professional services .....	2,448	2,043	2,4
	-----	-----	-----
Total revenues .....	12,532	10,369	5,9
	-----	-----	-----
Cost of revenues			
Software Licenses .....	51	154	2
Software and audio services .....	3,881	3,799	5
Maintenance and professional services .....	827	792	1,2
Amortization of acquired developed technology .....	376	451	2
	-----	-----	-----
Total cost of revenues .....	5,135	5,196	2,2
	-----	-----	-----
Gross profit .....	7,397	5,173	3,6
	-----	-----	-----
Operating expenses			
Research and development .....	1,392	1,545	1,0
Sales and marketing .....	3,075	4,078	2,2
General and administrative .....	2,187	2,924	1,8
	-----	-----	-----
Total operating expenses .....	6,654	8,547	5,0
	-----	-----	-----
Income/(loss) from operations .....	743	(3,374)	(1,3
	-----	-----	-----
Interest expense .....	(1,041)	(1,081)	(8
Amortization of beneficial debt conversion .....	(856)	(853)	(4
	-----	-----	-----
Total interest expense .....	(1,897)	(1,934)	(1,2
Interest income and other .....	117	25	
Gain on sale of assets .....	40	--	
Net (loss)/ gain on settlement of debt and other obligations .....	(257)	82	3
Gain/ (loss) on foreign currency translation .....	--	2	(
	-----	-----	-----
Other loss from continuing operations .....	(1,997)	(1,825)	(9
	-----	-----	-----
Loss from continuing operations before income taxes ...	(1,254)	(5,199)	(2,2
Income tax expense .....	--	--	
	-----	-----	-----
Loss from continuing operations .....	(1,254)	(5,199)	(2,2
Income/ (loss) from discontinued operations .....	83	(128)	2
	-----	-----	-----
Net loss .....	(1,171)	(5,327)	(2,0
Series A and B preferred stock dividends .....	(130)	(105)	(
Imputed preferred stock dividends .....	(55)	--	(2
	-----	-----	-----
Loss available to common shareholders .....	\$ (1,356)	\$ (5,432)	\$ (2,3
	=====	=====	=====
Income/ (Loss) per common share, basic and diluted			
From continuing operations .....	\$ (0.05)	\$ (0.23)	\$ (0.
From discontinued operations .....	--	--	0.
	-----	-----	-----
Net loss per common share .....	\$ (0.05)	\$ (0.23)	\$ (0.
	=====	=====	=====

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Number of shares used in calculation of income/ (loss) per share basic and diluted: .....	26,075 =====	23,179 =====	16,7 =====
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

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ILINC COMMUNICATIONS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(IN THOUSANDS)

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID - IN CAPITAL
	SHARES	AMOUNT	SHARES	AMOUNT	
Balances, April 1, 2003 .....	--	\$ --	17,018	\$ 17	\$ 32,854
Issuances of common stock .....	--	--	25	--	14
Repricing of warrants .....	--	--	--	--	12
Vesting of restricted stock grant .....	--	--	--	--	40
Issuance of convertible preferred stock in private placement (net of expenses of \$212) .....	150	--	--	--	1,288
Convertible subordinated notes converted to common stock .....	--	--	1,572	2	1,099
Convertible redeemable subordinated notes converted to common stock .....	--	--	150	--	150
Beneficial conversion feature associated with convertible redeemable notes .....	--	--	--	--	214
Debt and accrued liability converted to common stock .....	--	--	492	--	456
Preferred stock dividends .....	--	--	--	--	--
Warrant grant .....	--	--	--	--	21
Affiliate Practice terminations .....	--	--	--	--	--
Imputed preferred stock dividends .....	--	--	--	--	247
Net loss .....	--	--	--	--	--
Balances, March 31, 2004 .....	150	--	19,257	19	36,395
Glyphics acquisition .....	--	--	2,819	3	2,760
Warrant expense .....	--	--	--	--	90
Vesting of restricted stock grant ..	--	--	--	--	40
Issuance of common stock in private					

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placement (net of expenses) .....	--	--	1,635	2	1,734
Convertible notes converted to common stock .....	--	--	714	1	493
Preferred stock conversions .....	(23)	--	450	--	--
Debt converted to common stock .....	--	--	551	--	583
Preferred stock dividends .....	--	--	--	--	--
Stock option exercises .....	--	--	151	1	80
Net loss .....	--	--	--	--	--
<hr/>					
Balances, March 31, 2005 .....	127	--	25,577	26	42,175
Warrant grant .....	--	--	--	--	6
Series A preferred stock dividends .	--	--	--	--	--
Series B preferred stock dividends .	--	--	--	--	--
Vesting of restricted stock grant ..	--	--	--	--	40
Warrant exercise .....	--	--	164	1	40
Warrant conversion expense due to warrant repricing .....	--	--	--	--	7
Issuance of Series B preferred stock in private placement from accounts payable and accrued liabilities conversion .....	55	--	--	--	550
Issuance of Series B preferred stock in private placement .....	15	--	--	--	150
Imputed preferred stock dividend ...	--	--	--	--	55
Conversion of 2002 convertible redeemable subordinated notes and accrued interest to common stock .....	--	--	1,971	2	531

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	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID - IN CAPITAL
	SHARES	AMOUNT	SHARES	AMOUNT	
Conversion expense associated with conversion of 2002 convertible redeemable subordinated notes to common stock .....	--	--	--	--	338
Conversion of 2004 senior unsecured promissory notes to common stock .....	--	--	903	--	225
Gain on conversion of 2004 senior unsecured promissory notes to common stock .....	--	--	--	--	(9)
Issuance of common shares held in escrow to Glyphics shareholders .....	--	--	308	--	120
Net loss .....	--	--	--	--	--

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Balances, March 31, 2006 ..... 197 \$ -- 28,923 \$ 29 \$ 44,228

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

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ILINC COMMUNICATIONS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	FOR THE YEAR ENDED MARCH 31, 2006	FOR THE YEAR ENDED MARCH 31, 2005
	-----	-----
Cash flows from continuing operating activities:		
Loss from continuing operations .....	\$(1,254)	\$(5,199)
Adjustments to reconcile loss from continuing operations to cash provided by/ (used in) continuing operating activities:		
Provision for/ (recovery of) bad debts .....	111	212
Loss on disposal of fixed assets .....	--	6
Depreciation and amortization .....	1,684	1,657
Warrant expense .....	6	90
Loss on CNLearn note receivable settlement .....	8	--
Debt conversion expense, net .....	249	--
Gain on sale of assets to Learn Something .....	(40)	--
Stock compensation expense .....	40	40
Net gain on settlement of debt and other obligations .....	--	(82)
Accretion of debt discount to interest expense .....	626	676
Stock issued for contingent compensation .....	60	--
Changes in operating assets and liabilities, net of business acquisitions:		
(Increase) in accounts receivable .....	(352)	(450)
Decrease/ (increase) in prepaid expenses and other current assets .....	39	39
Decrease in other assets .....	6	13
(Decrease)/ increase in accounts payable and accrued liabilities .....	(452)	465
(Decrease)/ increase in deferred revenue .....	(97)	(85)
Net cash provided by/ (used in) operating activities .	----- 634	----- (2,618)
Cash flows from investing activities:		
Capital expenditures .....	(55)	(153)
Acquisitions, net of cash acquired .....	(4)	4
Acquisition royalty earnout .....	(261)	(70)
Deferred acquisitions costs .....	--	--
Proceeds from sale of software .....	20	--
Repayment of notes receivable .....	8	25
Net cash used in investing activities .....	----- (292)	----- (194)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock .....	150	--
Preferred stock dividends .....	(116)	(105)

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Proceeds from issuance of long-term debt .....	19	4,250
Stock issuance expense .....	--	--
Proceeds from exercise of stock options .....	--	81
Proceeds from exercise of stock warrants .....	41	--
Repayment of long-term debt .....	(308)	(514)
Repayment of capital lease liabilities .....	(157)	(328)
Financing costs incurred .....	(24)	(448)
	-----	-----
Net cash (used in)/ provided by financing activities .	(395)	2,936
	-----	-----
Cash flows from continuing operations .....	(53)	124
Cash flows from discontinued operations .....	(13)	116
	-----	-----
Net change in cash and cash equivalents .....	(66)	240
Cash and cash equivalents, beginning of period .....	532	292
	-----	-----
Cash and cash equivalents, end of period .....	\$ 466	\$ 532
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. ORGANIZATION AND NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Headquartered in Phoenix, Arizona, iLinc Communications, Inc. is a leading provider of Web conferencing, audio conferencing and collaboration software and services. The Company develops and sells software that provides real-time collaboration and training using Web-based tools. Our four-product iLinc Suite, led by LearnLinc (which also includes MeetingLinc, ConferenceLinc, and SupportLinc), is an award winning virtual classroom, Web conferencing and collaboration suite of software. With its Web collaboration, conferencing and virtual classroom products, the Company provides simple, reliable and cost-effective tools for remote presentations, meetings and online events. The Company's software is based on a proprietary architecture and code that finds its origins as far back as 1994, in what the Company believes to be the beginnings of the Web collaboration industry. Versions of the iLinc Suite have been translated into six languages, and it is currently available in version 8.01. The Company's customers may choose from several different pricing options for the iLinc Suite, and may receive its products on a stand-alone basis or integrated with one or a number of its other award-winning products, depending upon their needs. Uses for the four-product suite of Web collaboration software include online business meetings, sales presentations, training sessions, product demonstrations and technical support assistance. The Company sells its software solutions to large and medium-sized corporations inside and outside of the Fortune 1000, targeting certain vertical markets. The Company markets its products using a direct sales force and a distribution channel consisting of agents and value added resellers. The Company allows customers to choose between purchasing a perpetual license and subscribing to a term license to its

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products, providing for flexibility in pricing and payment methods.

The Company began operations in March of 1998. Its formation included the simultaneous rollup of fifty private businesses and an initial public offering. The Company's initial goals included providing training enhancement services over the Internet using a browser based system. In 2002, the Company began shifting its focus away from its legacy business, settling on its current focus of Web conferencing and audio conferencing and in doing so ultimately changed its name to iLinc Communications, Inc. in February 2004.

The Company's consolidated financial statements for the year ended March 31, 2004 were prepared on a basis which assumed that it would continue as a going concern, and which contemplated the realization of its assets and the satisfaction of its liabilities and commitments in the normal course of business.

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### 2. DISCONTINUED OPERATIONS

Effective January 1, 2004, the Company discontinued its dental practice management services. In accordance with SFAS 144 "ACCOUNTING FOR IMPAIRMENT ON DISPOSAL OF LONG-LIVED ASSETS," the Company has restated its historical results to reflect its dental practice management service business segment as a discontinued operation.

A summary of the results from discontinued operations for the years ended March 31, 2006, 2005, and 2004 are as follows:

	FOR THE YEARS ENDED MARCH 31		
	2006	2005	2004
	(IN THOUSANDS)		
Net revenue .....	\$ --	\$ --	\$ --
Operating expenses .....	3	--	--
Income/ (loss) from operations .....	(3)	--	--
Interest expense .....	(1)	(36)	--
Interest income .....	--	--	--
Gain on termination of service agreements with Affiliated Practices .....	87	42	--
Gain on debt forgiveness .....	--	15	--
Loss on settlement of capital lease .....	--	(149)	--
Tax expense .....	--	--	--
Net income/ (loss) from discontinued operations .....	\$ 83	\$ (128)	\$ --

Interest expense of \$1,000, \$36,000, and \$86,000 for fiscal years 2006, 2005, and 2004, respectively, was allocated to the discontinued dental practice management services business segment since it relates to specific debts that were incurred in order to provide the dental practice management services.

Discontinued operations are expected to generate cash flows through the

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third quarter of fiscal 2007.

A summary of the assets and liabilities of its discontinued operations are as follows:

	AS OF MARCH 31,	
	2006	2005
	-----	
	(IN THOUSANDS)	
Notes receivable, net.....	\$	114
Capital lease settlement liability.....	\$	263

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### PRINCIPLES OF CONSOLIDATION

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

#### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The more significant areas requiring use of estimates and judgment relate to revenue recognition, accounts receivable and notes receivable valuation reserves, realizability of intangible assets, realizability of deferred income tax assets and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of such estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

#### REVENUE RECOGNITION

Our revenues are generally classified into three main categories: license revenue, software and audio service revenue and maintenance and professional service revenue. License revenue is generated from the sale of its iLinc suite of Web conferencing software on a software purchase model basis under the traditional perpetual model or the iLinc Enterprise Unlimited model launched in fiscal 2006 and from the sale of its off-the-shelf courseware, primarily the online Bridge (Mini-MBA) program. Software and audio service revenue is generated from the sale of its iLinc Suite of Web conferencing software on an Application Service Provider ("ASP") model basis, the sale of its iLinc Suite software on a per-minute basis, and includes all revenue from the provision of audio conferencing services, as well as, all service contracts that might include hosting, and training services. Maintenance and professional service revenue is generated from the sale of maintenance contracts related to

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its iLinc suite of Web conferencing software on a purchase model basis, when hosted by the customer, and from the sale of professional services that are associated with its custom content development services.

### Sales of Software Licenses

Because the Company offers the iLinc Suite software in one of two forms, the first being a purchase model and the second being an ASP or per-minute model, we have separate revenue recognition policies applicable to each licensing model. With each sale of its Web conferencing products and services, the Company executes written contracts with its customers that govern the terms and conditions of each software license sale, hosting agreement, maintenance and support agreement and other services arrangements. The Company does not typically execute written agreements for the sale of audio conferencing services.

In connection with the Company's sales of software licenses, whether on a purchase model basis or periodic license basis, the Company adopted Statement of Position ("SOP") 97-2 "Software Revenue Recognition" as issued by the American Institute of Certified Public Accountants. In accordance with SOP 97-2, the Company recognizes revenue from the sale of software licenses if all of the following conditions are met: first, there is persuasive evidence of an arrangement with the customer; second, the product has been delivered to the customer; third, the amount of the fees to be paid by the customer is fixed or determinable; and, fourth, collection of the fee is probable.

Each of these factors, particularly the determination of whether a fee is fixed and determinable and the collectability of the resulting receivable, requires the application of the judgment and the estimates of management. Therefore, significant management judgment is utilized and estimates must be made in connection with the revenue the Company recognizes in any accounting period. The Company analyzes various factors, including a review of the nature of the license or product sold, the terms of each specific transaction, the vendor specific objective evidence of the elements required by SOP 97-2, any contingencies that may be present, its historical experience with like transactions or with like products, the creditworthiness of the customer, and other current market and economic conditions. Changes in its judgment based upon these factors and others could impact the timing and amount of revenue that the Company recognizes, and ultimately the results of operations and its financial condition. Therefore, the recognition of revenue is a key component of its results of operations.

At the time of the sale of its software license on a purchase license basis, we assess whether the fee associated with the transaction is fixed or determinable based on the payment terms associated with the transaction before recording immediate revenue recognition, assuming all other elements of revenue recognition are present. Billings to its customers are generally due within 30 to 90 days, with payment terms up to 180 days available to certain credit worthy customers. The Company believes that it has sufficient history of collecting all amounts within these normal payment terms and to conclude that the fee is fixed or determinable at the time of the perpetual license sale. The Company considers all arrangements with payment terms longer than 180 days not to be fixed or determinable and for arrangements involving the extended payment terms exceeding 180 days, revenue recognition occurs when payments are collected, assuming all other elements of revenue recognition are present.

In addition, in assessing whether collection is probable or not for a given transaction, and therefore whether the Company should recognize the revenue, the Company makes estimates regarding the creditworthiness of the customer. Initial creditworthiness is assessed through internal credit check processes, such as credit applications or third party reporting agencies. Creditworthiness for transactions to existing customers primarily relies upon a



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review of their prior payment history. The Company does not request collateral or other security from its customers. If the Company determines that collection of a fee is not reasonably assured, it defers the fee and recognizes revenue at the time collection becomes reasonably assured, which is generally upon the receipt of payment or other change in circumstance.

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During Fiscal 2006, iLinc launched its Enterprise Unlimited perpetual licensing model, that enables customers to pay a one-time up-front fee for unlimited, organization-wide Web conferencing, with revenue recognized at the time of the sale of the Enterprise Unlimited perpetual license. The annual maintenance and support fees and hosting fees associated with an iLinc Enterprise Unlimited license are based upon a fixed rate per seat license that is active on each annual anniversary of the iLinc Enterprise Unlimited license agreement and that is approximately equivalent to the 15% to 18% charged for concurrent seat perpetual license contracts. Customers may expand the number of active seats available to them at any time with a corresponding increase in annual maintenance and hosting fees being charged with the additional revenue recognized on a straight-line basis over the period of the contract.

### Sales of Concurrent Licenses on an ASP and Per-minute Basis

Historically and on a continuing basis, a majority of its license revenue has been generated under the software purchase model basis, with revenue recognized based on a one-time sale of a perpetual license. In addition to that purchase model software sale, the Company also offers a more flexible concurrent connection seat license and a pay-per-minute usage based model. Under its ASP model, a customer may subscribe to a certain number of concurrent connections or seats for a fixed period, often a year. Under this ASP method, the Company recognizes the revenue associated with these monthly, fixed-fee subscription arrangements each month on a straight-line basis over the term of the agreement. Other customers choose to avoid annual commitments and instead use its Web conferencing and audio conferencing products and services based upon a per-minute or usage-based pricing model. Per-minute customers may also include those customers on an ASP model that incur overage fees for usage in excess of the permitted number of seats or minutes in excess of the minimum commitment. The per-minute fees that include overage fees are charged at the end of each month and recorded as revenue at the end of each month as the services are provided. Customers with contractually established minimum per-minute fees are assessed the greater of the established minimum or the actual usage at the end of each month. Customers wishing to avoid monthly commitments may use the e-commerce portion of its Web site that permits the use of its Web conferencing services on a pay-per-use basis, with no monthly minimum, purchasing the services and paying for those services online by credit card.

### Sales of Maintenance, Hosting and other Related Services

The Company offers with each sale of its software products a software maintenance, upgrade and support arrangement. These contracts may be elements in a multiple-element arrangement or may be sold in a stand-alone basis. Revenues from maintenance and support services are recognized ratably on a straight-line basis over the term that the maintenance service is provided. Maintenance contracts typically provide for 12-month terms with maintenance contracts available up to 36 months. The Company typically charges 15% to 18% of the software purchase price for a 12-month contract with discounts available for longer-term agreements. The Company also typically charges 5% to 10% of the software purchase price for hosting of purchase model software sales for

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customers who do not wish to install and host the iLinc Suite on their own premises or that of a co-location facility. Charges for hosting are likewise spread ratably over the term of the hosting agreement, with the typical hosting agreement having a term of 12 months, with renewal on an annual basis. The annual maintenance and support fees and hosting fees associated with an iLinc Enterprise Unlimited license are based upon a fixed rate per seat license that is active on each annual anniversary of the iLinc Enterprise Unlimited license agreement and that is approximately equivalent to the 15% to 18% charged for concurrent seat perpetual license contracts.

Revenues from consulting, training and education services are recognized either as the services are performed, ratably over a subscription period, or upon completing a project milestone if defined in the agreement. These consulting, training and education services, are not considered essential to the functionality of its products as these services do not alter the product capabilities, do not require specialized skills, and are often performed by the customer or its VAR's customers without access to those services.

Implementation, consulting, training, translation, and other event type services may also be sold in conjunction with the sale of its software products. Those services are generally recognized as the services are performed or earlier when all other revenue recognition criteria have been met. Although the Company may provide implementation, training and consulting services on a time and materials basis, a significant portion of these services have been provided on a fixed-fee basis.

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Should the sale of its software involve an arrangement with multiple elements (for example, the sale of a software license along with the sale of maintenance and support to be delivered over the contract period), the Company allocates revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements. The Company defers revenue from the arrangement equivalent to the fair value of the undelivered elements and recognizes the remaining amount at the time of the delivery of the product or when all other revenue recognition criteria have been met. Fair values for the ongoing maintenance and support obligations are based upon separate sales of renewals of maintenance contracts. Fair value of services, such as training or consulting, is based upon separate sales of these services to other customers. Thus, these types of arrangements require us to make judgments about the fair value of undelivered arrangements.

### Sales of Custom Content Development Services

A component of its maintenance and professional services revenue is derived from custom content development services. The sale of custom content development services often involves the execution of a master service agreement and corresponding work orders describing the deliverable due, the costs involved, the project milestones and the payments required. These custom content development services are primarily outsourced to a subcontractor, Interactive Alchemy. For contracts and revenues related exclusively to custom content development services, the Company recognizes revenue and profit as work progresses on custom content service contracts using the percentage-of-completion method. This method relies on estimates of total expected contract revenue and costs as each job progresses throughout the relevant contract period. The Company follows this method since reasonably dependable estimates of the costs applicable to various stages of a custom

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content service contract can be made. Recognized revenues and profit are subject to revisions as the custom content service contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. Customers sometimes request modifications to projects in progress which may result in significant revisions to cost estimates and profit recognition, and the Company may not be successful in negotiating additional payments related to the changes in scope of requested services. Should this arise, the provision for any estimated losses on uncompleted custom content service contracts are made in the period in which such losses become evident. There were no such losses at March 31, 2006, 2005, and 2004 for any custom content development services. For arrangements requiring customer acceptance, revenue is deferred until the earlier of the end of the acceptance period or until written notice of acceptance is received from the customer.

### Sales by VARs and Agents

The Company has engaged organizations within the United States of America and in 12 other countries that market and sell its products and services through their sales distribution channels that are value added resellers (VARs). The VARs primarily sell, on a non-exclusive basis, its iLinc suite of Web conferencing products and predominately sell purchase-model perpetual licenses for installation and hosting by the VAR's customer. The Company's VAR contracts have terms of one to two years and are automatically renewed for an additional like term unless either party terminates the agreement for breach or other financial reasons. Each VAR purchases the product from the Company and resells the product to its customers. Under those VAR agreements, the Company records only the amount paid by the VAR as revenue and recognizes revenue when all revenue recognition criteria have been met. The Company also engages organizations that act as mere agents or distributors of its products ("Agents"), without title passing to the Agent and with the Agent only receiving a commission on the consummation of the sale to its customer. The Company records revenue on sales by Agents on a gross basis before commissions due to the Agent and only when all revenue recognition criteria are met as would be with a sale by the Company directly to a customer not involving an agent.

### Sales Reserve

The sales reserve is an estimate for losses on receivables resulting from customer credits, cancellations and terminations and is recorded, if at all, as a reduction in revenue at the time of the sale. Increases to sales reserve are charged to revenue, reducing the revenue otherwise reportable. The sales reserve estimate is based on an analysis of the historical rate of credits, cancellations, and terminations. The accuracy of the estimate is dependent on the rate of future credits, cancellations and terminations being consistent with the historical rate. If the rate of actual credits, cancellations and terminations is different than the historical rate, revenue would be different from what was reported. As of March 31, 2006, the Company did not believe that an accrual for sales reserve was necessary, but continues to assess the adequacy of the sales reserve account balance on a quarterly basis.

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### Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts to provide for losses on accounts receivable due to customer credit risk. Increases to the

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allowance for doubtful accounts are charged to general and administrative expense as bad debt expense. Losses on accounts receivable due to financial distress or failure of the customer are charged to the allowance for doubtful accounts. The allowance estimate is based on an analysis of the historical rate of credit losses. The accuracy of the estimate is dependent on the future rate of credit losses being consistent with the historical rate. If the rate of future credit losses is greater than the historical rate, then the allowance for doubtful accounts may not be sufficient to provide for actual credit losses.

The allowance for doubtful accounts for iLinc Web collaboration product sales is \$120,000 and \$84,000, respectively, as of March 31, 2006 and 2005 and is based on its historical collection experience. Any adjustments to these accounts are reflected in the income statement for the current period, as an adjustment to revenue in the case of the sales reserve and as a general and administrative expense in the case of the allowance for doubtful accounts.

### SOFTWARE DEVELOPMENT COSTS

The Company accounts for software development costs in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," whereby costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. Technological feasibility is established upon completion of a working model. Costs of maintenance and customer support are charged to expense when related revenue is recognized or when those costs are incurred, whichever occurs first. Software development costs incurred subsequent to the establishment of technological feasibility have not been significant to date, and all software development costs have been charged to research and development expense in the accompanying consolidated statements of operations.

### ADVERTISING COSTS

Advertising costs are expensed as incurred. The Company's advertising expense at March 31, 2006, 2005 and 2004 was \$40,000, \$22,000 and \$122,000, respectively.

### CASH AND CASH EQUIVALENTS

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

The Company maintains cash balances at various financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. The Company's accounts at these institutions may, at times, exceed the federally insured limits. At March 31, 2006 and 2005, the Company had approximately \$350,000 and \$403,000, respectively, in excess of FDIC insured limits.

### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful life of the various classes of depreciable assets as follows:

Furniture & Fixtures	5 years
Equipment	5 years
Computer Equipment	3 years
Leasehold improvements	shorter of 5 years or lease term

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Maintenance and repairs are charged to expense whereas renewals and major replacements are capitalized. Gains and losses from dispositions are included in continuing operations.

### INTANGIBLE ASSETS

On April 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" and as a result, the Company's goodwill is no longer amortized. SFAS No. 142 requires that goodwill be tested annually (or more frequently if impairment indicators arise) for impairment. Upon initial application of SFAS No. 142, the Company determined there was no impairment of goodwill. The Company has established the date of March 31 on which to conduct its annual impairment test.

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The Company has made acquisitions of companies having operations or technology in areas within its strategic focus and has recorded goodwill and other intangible assets associated with the acquisitions (see Note 8). Future adverse changes in market conditions or poor operating results of the underlying acquired operations could result in losses or an inability to recover the carrying value of the goodwill and other intangible assets thereby possibly requiring an impairment charge in the future. Based in part on a third party full scope valuation that was performed with the valuation date of March 31, 2006, the Company's management believes that no impairment exists at March 31, 2006.

Debt issuance costs, which are included in other intangible assets, are amortized using the straight-line method over the term of the related debt obligations. At March 31, 2006 and 2005, debt issuance costs, net of accumulated amortization, were \$587,000 and \$784,000, respectively. Amortization of debt issuance costs have been reflected in interest expense in the accompanying consolidated statements of operations and total \$229,000, \$194,000, and \$104,000 for the years ended March 31, 2006, 2005, and 2004, respectively. These intangibles are amortized over their expected lives of between 39 months and 120 months. The \$229,000 of amortization includes \$131,000 related to the March 2002 Convertible Note Offering and \$98,000 related to the 2004 Private Placement Offering. Included in the March 2002 Convertible Note Offering, amortization of \$50,000 was accelerated due to the conversion of \$525,000 of the notes into 1,917,088 shares of the Company's common stock. Included in the April 2004 Private Placement Offering, amortization of \$10,000 was accelerated due to the conversion of \$225,000 or the offering debt into 903,205 shares of the Company's common stock.

Other intangibles primarily consist of the Glyphics, Quisic and LearnLinc purchase consideration (see Note 8), that was allocated to purchased software and customer relationship intangibles (see Note 6). Such other intangibles are amortized over their expected benefit period of 24 to 72 months.

### LONG-LIVED ASSETS

The Company reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is considered impaired when anticipated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. No impairment charges were recorded for the years ended March 31, 2006, 2005 and

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2004.

### CUSTOMER CONCENTRATIONS

Accounts receivable represent license agreements entered into and services rendered by the Company with its customers. The Company performs periodic credit reports before recognizing sales to certain customers, but does not receive collateral related to the receivables.

Revenues included one customer with transactions approximating 8%, 6%, and 24% of net revenues for the years ended March 31, 2006, 2005, and 2004, respectively of the trade accounts receivable balance. Revenues from international customers for the years ended March 31, 2006, 2005, and 2004 approximated \$566,000, \$391,000, and \$975,000, respectively.

Accounts receivable balances for two customers totaled approximately 9% and 7%, respectively, at March 31, 2006 and one customer approximated 7% as a percentage of the total balance outstanding at March 31, 2005.

### INCOME TAXES

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

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

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### STOCK-BASED COMPENSATION

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment to SFAS No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method on accounting for stock-based employee compensation. The Company has adopted the disclosure provisions of SFAS No. 123 and accordingly, the implementation of SFAS No. 148 did not have a material effect on the Company's consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). Under this new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and to recognize the expense over the service period. SFAS 123R will be effective for periods beginning after March 31, 2006 and allows for several alternative transition methods. The Company

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expects to adopt SFAS 123R in its first quarter of fiscal 2007 on a prospective basis, which will require recognition of compensation expense for all stock option or other equity-based awards that vest or become exercisable after the effective date. The Company is currently assessing the impact of this proposed Statement on our share-based compensation programs, however, it expects that the requirement to expense stock options and other equity interests that have been or will be granted to employees will increase its operating expenses and result in lower earnings per share.

The fair value for options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the years ended March 31, 2006, 2005, and 2004:

	2006 ----	2005 ----	2004 ----
Risk free interest rate	4.18 - 4.55%	4.19 - 4.71%	3.73-4.40%
Dividend yield	0%	0%	0%
Volatility factors of the expected market price of the Company's common stock	110% - 125%	73-90%	70-139%
Weighted-average expected life of Options	10 years	10 years	5-9 years

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS):

	2006 ----	2005 ----	2004 ----
Net loss available to common shareholders, as reported	\$(1,356)	\$(5,432)	\$(2,340)
Plus: Stock-based employee compensation expense included in reported net loss	40	40	--
Less: Total stock-based employee compensation expense determined using fair value based method	(191)	(352)	(168)
Pro forma net loss	<u>\$(1,507)</u>	<u>\$(5,744)</u>	<u>\$(2,508)</u>
Loss per share			
Basic and Diluted - as reported	<u>\$(0.05)</u>	<u>\$(0.23)</u>	<u>\$(0.14)</u>
Basic and Diluted - pro forma	<u>\$(0.06)</u>	<u>\$(0.25)</u>	<u>\$(0.15)</u>

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Basic income/loss per share is computed by dividing net income/loss available to common stockholders by the weighted-average number of common shares outstanding for each reporting period presented. Diluted earnings per share are computed similar to basic earnings per share while giving effect to all potential dilutive common stock equivalents that were outstanding during each reporting period. For the twelve months ended March 31, 2006, 2005, and 2004, options and warrants to purchase 5,285,528, 4,524,137 and 9,930,519 shares of common stock, respectively, were excluded from the computation of diluted earnings per share because of their anti-dilutive effect. Additionally, for the twelve months ended March 31, 2006, 2005 and 2004 preferred stock and debt convertible into 10,450,000, 8,175,000 and 8,175,000 shares of common stock, respectively, were excluded from the computation of diluted income/loss per share because inclusion of such would be antidilutive. Furthermore, a restricted stock grant of 450,000 shares has been excluded from the income/loss per share calculations.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivables and accounts payable approximate fair values due to the short-term maturities of these instruments. The carrying amounts of the Company's long-term borrowings and notes receivables (presented in assets both from continuing and discontinued operations) as of March 31, 2006 and 2005, approximate their fair value based on the Company's current incremental borrowing rates for similar type of borrowing arrangements.

### GUARANTEES AND INDEMNIFICATIONS

The Company provides a limited 90-day warranty for certain of its software products. Historically, claims by customers under this limited warranty have been minimal, and as such, no warranty accrual have been provided for in the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others -- an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FIN 34." The following is a summary of the Company's agreements that the Company has determined are within the scope of FIN No. 45.

Under its bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer's or director's serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. However, the Company has a director and officer liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal and has no liabilities recorded for these agreements as of March 31, 2006.

The Company enters into indemnification provisions under (i) its agreements with other companies in its ordinary course of business, typically with business partners, contractors, and customers, landlords and (ii) its agreements with investors. Under these provisions the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims



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related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of March 31, 2006.

### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). Under this new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and to recognize the expense over the service period. SFAS 123R will be effective for periods beginning after March 31, 2006 and allows for several alternative transition methods. The Company expects to adopt SFAS 123R in its first quarter of fiscal 2007 on a prospective basis, which will require recognition of compensation expense for all stock option or other equity-based awards that vest or become exercisable after the effective date. The Company is currently assessing the impact of this proposed Statement on its share-based compensation programs, however, we expect that the requirement to expense stock options and other equity interests that have been or will be granted to employees will increase its operating expenses and result in lower earnings per share.

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### RECLASSIFICATIONS

Certain prior year balances in the consolidated financial statements have been reclassified to conform to the fiscal 2006 presentation.

#### 4. NOTE RECEIVABLE

Note receivable consisted of the following:

	MARCH 31,	
	2006	2005
	(IN THOUSANDS)	
Note receivable.....	\$ 12	\$
Less: allowance for doubtful accounts.....	--	
	12	
Less: note receivable, current.....	(12)	
	\$ --	\$

In June 2005, a note receivable relating to the sale of software in the amount of \$25,000 was settled for \$17,500. The Company recognized a loss on settlement of \$7,500. The remaining note receivable bears interest at 10%, with interest and principal due in monthly installments through October 31, 2006. This note relates to the September 2005 sale of software acquired during the acquisition of Quisic for \$40,000, of which \$20,000 was paid up front and the remainder recorded as a note receivable, which resulted in a gain on sale of software for \$40,000.

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### 5. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	MARCH 31,	
	2006	2005
	(IN THOUSANDS)	
Furniture and fixtures.....	\$ 349	\$ 349
Equipment.....	298	298
Computer equipment.....	2,400	2,400
Leasehold improvements.....	29	29
	3,076	3,076
Total property and equipment		
Less: accumulated depreciation.....	(2,740)	(1,740)
	\$ 336	\$ 1,336
Property and equipment, net.....	\$ 336	\$ 1,336

Depreciation expense for the years ended March 31, 2006, 2005, and 2004 was \$940,000, \$845,000, and \$221,000, respectively.

### 6. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill consisted of the following:

	MARCH 31,	
	2006	2005
	(IN THOUSANDS)	
Goodwill.....	\$ 11,206	\$ 10,990

The changes in the carrying amount of the goodwill for the years ended March 31, 2006 and 2005 (IN THOUSANDS):

Balance, March 31, 2004.....	\$ 9,190
Mentergy acquisition, royalty accrual.....	618
Glyphics acquisition.....	989
	10,797
Balance, March 31, 2005.....	10,797
Mentergy acquisition, royalty accrual.....	280
Glyphics acquisition.....	9
Issuance of Glyphics escrow shares.....	120
	11,206
Balance, March 31, 2006.....	\$ 11,206

During fiscal 2002, the Company acquired certain assets of LearnLinc Corporation, a wholly owned subsidiary of Mentergy, Inc. As part of the agreement, the Company agreed to pay a royalty of 20% for all cash revenues collected from the sale or license of LearnLinc software over a three-year period up to November 4, 2005. The offset to the royalty accrual was recorded as goodwill. The Company included \$618,000 in fiscal 2005 and \$280,000 in fiscal 2006 up to November 4, 2005.

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The Company acquired Glyphics in the first quarter of fiscal 2005, which resulted in the Company recording \$989,000 of goodwill. See note 8 for further details.

At March 31, 2006, the Company also recorded \$120,000 to goodwill for the issuance of shares to the Glyphics shareholders that had been held in escrow. See note 10 for further details.

In accordance with SFAS 142, the Company does not amortize goodwill. SFAS 142 requires that goodwill be tested annually (or more frequently if impairment indicators arise) for impairment. The Company has established the date of March 31 on which to conduct its annual impairment test. Future adverse changes in market conditions or poor operating results of the underlying acquired operations could result in losses or an inability to recover the carrying value or the goodwill and other intangible assets thereby possibly requiring an impairment charge in the future. Based in part on a third party full scope valuation that was performed with the valuation date of March 31, 2006, the Company's management believes that no impairment exists at March 31, 2006.

MARCH 31, 2006				
	WEIGHTED AVERAGE REMAINING LIVES	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	
	(YEARS)		(IN THOUSANDS)	
AMORTIZED INTANGIBLE ASSETS:				
Deferred financing costs	5.10	\$ 1,080	\$ (493)	\$
Purchased software	1.17	1,481	(1,169)	
Customer relationships	4.17	1,230	(398)	
		\$ 3,791	\$ (2,060)	\$

MARCH 31, 2005				
	WEIGHTED AVERAGE REMAINING LIVES	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	
	(YEARS)		(IN THOUSANDS)	
AMORTIZED INTANGIBLE ASSETS:				
Deferred financing costs	5.84	\$ 1,113	\$ (329)	\$
Purchased software	1.92	1,481	(792)	
Customer relationships	4.46	1,230	(199)	
		\$ 3,824	\$ (1,320)	\$

AGGREGATE AMORTIZATION EXPENSE FOR INTANGIBLES (IN THOUSANDS) :

For the year ended March 31, 2006  
For the year ended March 31, 2005  
For the year ended March 31, 2004

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ESTIMATED AMORTIZATION EXPENSE (IN THOUSANDS):

Fiscal Year	
2007	\$655
2008	341
2009	276
2010	276
2011	108
Thereafter	75
	\$1,731

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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

	MARCH 31,	
	2006	2005
	(IN THOUSANDS)	
Accounts payable trade.....	\$ 1,257	\$ 1,7
Accrued state sales tax.....	233	1
Accrued interest.....	343	2
Amount payable to Quisic shareholders .....	--	4
Amounts related to acquisitions.....	8	3
Amounts payable to third party providers.....	1,006	1,0
Amounts payable to Interactive Alchemy.....	36	
Accrued salaries and related benefits.....	453	4
Deferred rent liability.....	27	
Liabilities from discontinued operations.....	53	2
Other.....	54	
	\$ 3,470	\$ 4,7

8. BUSINESS COMBINATIONS

GLYPHICS CORPORATION

The Company executed an agreement to acquire substantially all of the assets of and assume certain liabilities of Glyphics, a Utah based, private company. The acquisition had a stated effective date of June 1, 2004 and was fully consummated on June 14, 2004. The purchase price of \$5.349 million was based on a multiple of the Glyphics' 2003 annual audio conferencing business revenues (as defined in the asset purchase agreement). The purchase price was paid with the assumption of specific liabilities, with the balance paid using its common stock at the fixed price of \$1.05 per share.

In exchange for the assets received, the Company assumed \$2.466 million in debt and issued 3.1 million shares of its common stock at the date of acquisition. 704,839 shares of the Company's common stock were held in escrow

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subject to the claims of the Company for: (1) the amount, if any, that the audited audio conferencing business revenues (as defined in the asset purchase agreement) earned by the Company during the 12 months after the closing date are less than the audited audio conferencing business revenues (as defined in the asset purchase agreement) recorded by Glyphics during the 12 months ending December 31, 2003, (2) the representations and warranties made by Glyphics and its shareholders in the asset purchase agreement, and (3) the amount if any that the liabilities accrued or paid by the Company are in excess of those specifically scheduled and assumed as part of the asset purchase agreement. Subsequent to March 31, 2006, 704,839 shares were released from escrow related to the acquisition of Glyphics. Of that amount, 396,706 were returned to iLinc Communications due to the Company assuming obligations of \$377,815 greater than scheduled in the purchase agreement. The remaining 308,133 shares were issued to the Glyphics shareholders at \$0.39 per share based on the closing price of the agreement date of April 18, 2006. These shares were recorded as outstanding on March 31, 2006, pursuant to the terms of the Escrow Agreement. The Glyphics' shareholders receiving the Company's common stock as a result of the transaction have the right to demand registration of their common stock upon written notice, one year from the date of the transaction, to the Company and also have piggyback registration rights should the Company file a registration statement before the shares are otherwise registered. Operating results associated with audio conferencing operations are included as of June 1, 2004. The purchase price recorded was calculated as follows:

	AMOUNT
Issuance of iLinc's common stock (valued at \$0.98 per share using the five day average closing price) .....	\$ 2,763
Issuance of iLinc's common stock (valued at \$0.39 per share using the closing price at April 18, 2006.....)	120
Assumed liabilities.....	2,466
Total purchase price.....	\$ 5,349

The total purchase price was allocated to assets acquired, in accordance with SFAS No. 141 "Business Combinations," based upon estimated fair market values as determined by an appraisal report obtained from an independent appraisal firm. The excess purchase price over the estimated fair market value of the tangible and intangible assets acquired was allocated to goodwill. As this transaction is intended to qualify as a tax-free acquisition, the tax bases of the acquired assets remain unchanged. As a result, a deferred tax liability of \$1,132,000 has been established in an amount equal to the Company's statutory tax rate multiplied by the difference between the allocated book value of acquired non-goodwill assets and the tax bases of those assets. This increase to deferred tax liability resulted in a corresponding increase to the acquired goodwill. However, due to the presence of a valuation allowance against the net deferred tax asset, a second entry was then recorded to report the impact of the necessary decrease to the valuation allowance, with the offset being a reduction in acquired goodwill. The purchase price may change due to the ultimate resolution of charges against the escrow account, if any. The net result of these entries was to increase the deferred tax liability and decrease the valuation allowance by the same amount.

The purchase price of Glyphics has been allocated as follows:

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	PURCHASE PRICE ALLOCATION	
	----- (IN THOUSANDS)	
Current assets.....	\$	618
Property and equipment.....		1,609
Goodwill .....		1,118
Identifiable intangible assets .....		2,004
Current liabilities.....		(1,356)
Notes payable.....		(753)
Capital leases.....		(357)
Common stock.....		(3)
Additional paid-in capital.....		(2,880)
	-----	
Total	\$	--
	=====	

Operating results of Glyphics are included in the accompanying statement of operations for the year ended March 31, 2005 for the period June 1, 2004 through March 31, 2005. The following unaudited pro forma summary of condensed financial information presents the Company's combined results of operations as if the acquisition of Glyphics had occurred at the beginning of each period presented, after including the impact of certain adjustments including: (i) elimination of sales between the two companies and (ii) increase in amortization of the identifiable intangible assets and an increase in depreciation expense recorded as part of the acquisition.

	-----		YEAR ENDED	YEAR ENDED
			MARCH 31, 2005	MARCH 31, 2004
			-----	-----
Revenues.....	\$	10,906	\$	10,026
Loss from continuing operations.....		(3,604)		(3,157)
Net loss from continuing operations.....		(5,440)		(4,773)
Loss per basic and diluted share from continuing operations.....	\$	(0.24)	\$	(0.25)
Weighted average shares outstanding:				
Basic and diluted.....		23,328		19,562

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The pro forma financial information presented does not purport to indicate what the combined results of operations would have been had the combination occurred at the beginning of the periods presented or the results of operations that may be obtained in the future.

9. LONG-TERM DEBT

Long-term debt consisted of the following:

MARCH 3

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	2006	
	-----	-----
	(IN THOUSANDS)	
2002 Convertible redeemable subordinated notes .....	\$ 5,100	\$
2004 Senior unsecured promissory notes.....	2,962	
Shareholders' notes payable.....	157	
Notes payable.....	447	
	-----	-----
	8,666	
Less: Current portion of long-term debt.....	(199)	
Discount.....	(896)	
Beneficial conversion feature.....	(597)	
	-----	-----
Long-term debt, net of current portion.....	\$ 6,974	\$
	=====	=====

In March 2002, the Company completed a private placement offering (the "Convertible Note Offering") raising capital of \$5,775,000. Under the terms of the Convertible Note Offering, the Company issued convertible redeemable subordinated notes and warrants to purchase 5,775,000 shares of the Company's common stock. The convertible notes bear interest at the rate of 12% per annum and require quarterly interest payments, with the principal due at maturity on March 29, 2012. The note holders may convert the principal into shares of the Company's common stock at the fixed price of \$1.00 per share. The Company may force redemption by conversion of the principal into shares of the Company's common stock at the fixed conversion price, if at any time the 20 trading day average closing price of the Company's common stock exceeds \$3.00 per share. These notes are subordinated to any present or future senior indebtedness with no waiver required. Those warrants expired on March 29, 2005 without exercise. The exercise price of the warrants was \$3.00 per share. The Company could have forced exercise of the warrants at the exercise price, if at any time the closing price of the Company's common stock equaled or exceeded \$5.50 per share for 20 consecutive trading days. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: contractual and expected life of three years, volatility of 75%, dividend yield of 0%, and a risk-free rate of 3.87%. The fair value was then used to calculate a discount of \$1,132,000, which is being amortized to interest expense over the ten-year term of the notes. Since the carrying value of the notes was less than the conversion value, a beneficial conversion feature of \$1,132,000 was calculated and recorded as an additional discount to the notes and is being amortized to interest expense over the ten year term of the notes. Upon conversion of these convertible notes, any remaining discount and beneficial conversion feature associated with these convertible notes will be expensed in full at the time of conversion. The common stock underlying these notes was registered with the SEC and may be sold if converted into common stock pursuant to a resale prospectus dated May 24, 2004. During fiscal 2004 holders with a principal balance totaling \$150,000 converted their notes into 150,000 common shares of the Company. During fiscal 2006 holders with a principal balance of \$525,000 converted their notes and \$8,000 of accrued interest into 1,971,088 shares of the Company's common stock at a price of \$0.25, \$0.26 and \$0.30 per share. Since the actual conversion price for the convertible debt was less than the fixed conversion price of \$1.00, the Company recorded conversion expense of \$338,000 for the period ending March 31, 2006. During fiscal 2006, the Company accelerated the amortization of the deferred offering costs and the discount and beneficial conversion feature associated with the debt by expensing \$50,000 and \$137,000, respectively at the time of conversion.

In April of 2004, the Company completed a private placement offering of unsecured senior notes (the "2004 Senior Note Offering") that provided gross

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proceeds of \$4.25 million. Under the terms of the 2004 Senior Note Offering, the Company issued \$3,187,000 in unsecured senior notes and 1,634,550 shares of the Company's common stock. The senior notes were issued as a series of notes pursuant to a unit purchase and agency agreement. The senior notes are unsecured. The placement agent received a commission equal to 10% of the gross proceeds together with a warrant for the purchase of 163,455 shares of the

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Company's common stock with an exercise price equal to 120% of the price paid by investors. The senior notes bear interest at a rate of 10% per annum and accrued interest is due and payable on a quarterly basis beginning July 15, 2004, with principal due at maturity on July 15, 2007. The senior notes are redeemable by the Company at 100% of the principal value at any time after July 15, 2005. The notes and common stock were issued with a debt discount of \$768,000. The fair value of the warrants was estimated and used to calculate a discount of \$119,000 of which \$68,000 was allocated to the notes and \$51,000 was allocated to equity. The total discount allocated to the notes of \$836,000 is being amortized as a component of interest expense over the term of the notes which is approximately 39 months. The senior notes are unsecured obligations of the Company but are senior in right of payment to all existing and future indebtedness of the Company. The common stock issued in the 2004 Senior Note Offering was registered with the SEC pursuant to a resale prospectus dated August 2, 2005. Effective August 1, 2005, holders with a principal balance totaling \$225,000 converted their senior notes and accrued interest of \$800 into 903,205 shares of the Company's common stock at a price of \$0.25 per share. Since the actual conversion price for the debt was greater than the market value of the stock at the date of conversion, the Company recorded a gain on conversion of \$9,000 for the year ended March 31, 2006. During fiscal 2006, the Company accelerated the amortization of the deferred offering costs and the discount associated with the debt by expensing \$10,000 and \$35,000, respectively at the time of conversion. On November 9, 2005, placement agent warrants originally issued with an exercise price of \$0.78 per common share were converted to 163,455 common shares at an exercise price of \$0.25 per share, in which the Company received \$41,000 in cash. The transaction resulted in an increase in deferred offering costs of \$7,000 and an adjustment to additional paid-in capital of \$7,000.

In connection with the Company's initial public offering (IPO) in March of 1998, the Company issued notes to certain shareholders who had provided capital prior to the IPO. These notes were originally due in April of 2005 and required quarterly payments of interest only at the rate of 10%. During the first quarter of fiscal 2006, many of the noteholders agreed to extend the maturity date and accept installment payments that were due during the year ended March 31, 2006. The outstanding principal balance on these notes is \$157,000 as of March 31, 2006. The Company has agreed to make installment payments for the outstanding principal balance plus accrued interest. As of March 31, 2006, the Company owed installment payments for principal of \$87,000 on those IPO Notes, with no claims of default by the holders of the outstanding IPO notes.

In connection with the Company's acquisition of Glyphics (Note 8), the Company assumed \$753,000 in loan obligations, the unpaid balance of which \$43,000 at March 31, 2006 is currently due in the short term. The rates of interest on such notes range from 6% to 9.5% per annum. Subsequent to March 31, 2006, the loan amount for \$397,000 was extended to April 1, 2007 and was therefore recorded as long-term debt at March 31, 2006.



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The aggregate maturities of long-term debt excluding capital leases for each of the next five years subsequent to March 31, 2006 were as follows (IN THOUSANDS):

2007.....	\$	199
2008.....		3,364
2009.....		2
2010.....		1
2011.....		--
Thereafter.....		5,100
		-----
	\$	8,666
		=====

### 10. CAPITALIZATION

#### PREFERRED STOCK

The Company has the authority to issue ten million shares of preferred stock, par value \$.001 per share. On September 16, 2003, the Company completed its private placement of Series A Preferred Stock with detachable warrants. The Company sold 30 units at \$50,000 each and raised a total of \$1,500,000. Each unit consisted of 5,000 shares of Series A Preferred Stock and a warrant to purchase 25,000 shares of common stock, par value \$.001. The Series A Preferred Stock is convertible into the Company's common stock at a price of \$0.50 per share, and the warrants are immediately exercisable at a price of \$1.50 per share with a three-year term. Accordingly, each share of Series A Preferred Stock is convertible into 20 shares of common stock and retains a \$10 liquidation preference. The Company pays an 8% dividend to holders of the Series

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A Preferred Stock, and the dividend is cumulative. The Series A Preferred Stock is non-voting and non-participating. The shares of Series A Preferred Stock will not be registered under the Securities Act of 1933, as amended, and were offered in a private placement providing exemption from registration. The cash proceeds of the private placement of Series A Preferred Stock was allocated pro-rata between the relative fair values of the Series A Preferred Stock and warrants at issuance using the Black-Scholes valuation model for valuing the warrants. After allocating the proceeds between the Series A Preferred Stock and warrant, an effective conversion price was calculated for the Series A Preferred Stock to determine the beneficial conversion discount for each share. During the year ended March 31, 2004, the aggregate value of the warrants and the beneficial conversion discount of \$247,000 were considered a deemed dividend in the calculation of loss per share. During fiscal 2005, holders of 22,500 shares converted to 450,000 shares of common stock. The underlying common stock that would be issued upon conversion of the preferred stock and upon exercise of the associated warrants have been registered with the SEC and may be sold pursuant to a resale prospectus dated May 24, 2004.

On September 30, 2005, the Company executed definitive agreements with nine investors to issue 70,000 unregistered shares of its Series B Preferred Stock, par value \$0.001 and warrants to purchase 700,000 shares of its common stock (the "Warrants") in a private transaction that was exempt from registration under Section 4(2) of the Securities Act of 1933. Of the total

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Series B Preferred Stock issued, 15,000 shares of Series B Preferred Stock with Warrants to purchase 150,000 shares of common stock were issued to four individuals in exchange for their cash investment of \$150,000; 15,000 shares of Series B Preferred Stock with Warrants to purchase 150,000 shares of common stock were issued to two vendors in exchange for an offset of their accounts payable balance in the amount of \$150,000; and 40,000 shares of Series B Preferred Stock with Warrants to purchase 400,000 shares of common stock (effective August 29, 2005 as previously disclosed on Form 8-K dated September 2, 2005) were issued to three institutional investors in exchange for the offset of accrued liabilities in the amount of \$400,000 that arose from the Quisic acquisition. The Company recorded a gain on debt conversion of \$50,000 associated with this transaction since the liabilities outstanding were \$450,000 at the time of the transaction. The Series B Preferred Stock bears an 8% dividend, was sold using a deemed \$10.00 per share issue price, and is convertible into 2,800,000 shares of the Company's common stock using a conversion price of \$0.25 per share. The Warrants that are exercisable at an exercise price equal to \$0.50 per share expire on the third anniversary of the issue date of September 30, 2005. The aggregate value of the warrants of \$55,000 is considered a deemed dividend in the calculation of loss per share.

### COMMON STOCK

As of March 31, 2006, the Company is authorized to issue 100 million shares of common stock. The Company has acquired treasury stock from certain affiliated practices for the payment of receivables and purchase of property and equipment as a part of its discontinued operations.

In December 2001, the Company, under the initiative of the Compensation Committee with the approval of the Board of Directors, issued its Chief Executive Officer an incentive stock grant under the 1997 Stock Compensation Plan of 450,000 restricted shares of the Company's common stock as a means to retain and incentivize the Chief Executive Officer. The shares were valued at \$405,000 based on the closing price of the stock on the date of grant, which is recorded as compensation expense ratably over the vesting period. The shares 100% vest after 10 years from the date of grant or upon attaining the following share price performance criteria: 150,000 shares vest if the share price trades for \$4.50 per share for 20 consecutive days; 150,000 shares vest if the share price trades for \$8.50 per share for 20 consecutive days; and 150,000 shares vest if the share price trades for \$12.50 per share for 20 consecutive days.

Subsequent to March 31, 2006, the Compensation Committee of the Board of Directors amended the vesting performance criteria hurdles as follows: 150,000 shares vest if the share price trades for \$1.00 per share for 20 consecutive days; 150,000 shares vest if the share price trades for \$2.00 per share for 20 consecutive days; and 150,000 shares vest if the share price trades for \$3.00 per share for 20 consecutive days. All other aspects of the grant remained the same.

In connection with the restricted stock grant, the Company loaned the Chief Executive Officer \$179,000 to fund the immediate tax consequences of the grant. The Company recognized a \$179,000 charge to income at the date of grant.

Subsequent to March 31, 2006, 704,839 shares were released from escrow related to the acquisition of Glyphics. Of that amount, 396,706 were returned to iLinc Communications due to the Company assuming obligations of \$377,815 greater than scheduled in the purchase agreement. The remaining 308,133 shares were issued to the Glyphics shareholders at \$0.39 per share based on the closing

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price of the agreement date of April 18, 2006. These shares were recorded as outstanding on March 31, 2006 pursuant to the terms of the Escrow Agreement.

Subsequent to March 31, 2006, on June 9, 2006, the Company completed a private placement of 5,405,405 unregistered, restricted shares of common stock for approximately \$1.7 million in net cash proceeds. The Company paid its placement agent an underwriting commission of \$180,000 of which \$25,000 was recorded as deferred offering costs at March 31, 2006 and incurred additional offering expenses of approximately \$50,000. Within 30 days of the closing date, the Company will file a Registration Statement on Form S-3 to enable the resale of the shares by the Investors. The Company intends to use the proceeds for working capital and general corporate purposes.

### WARRANTS

On November 19, 2003, the Company issued a warrant to purchase 250,000 shares of common stock to an advisor of the Company in exchange for certain advisory and consulting services pursuant to a written advisory agreement that will be provided to the Company over a three-year contractual period. The warrants are exercisable for shares of the Company's common stock at a price of \$0.40. The warrants contain a provision that prohibited the delivery of shares even if exercised until after February 5, 2004. The warrants are currently treated as a variable plan grant; accordingly, the warrants will be revalued at each quarter end and the portion related to the cumulative expired services period less prior charges recorded will be recorded as a charge to expense during the period. The warrants were valued using the Black-Scholes model to calculate a fair value of \$0.73 per share at March 31, 2004. A portion of the fair value totaling \$20,000 was recognized for fiscal 2004. During fiscal 2005, the remaining balance of the warrants was expensed for \$90,000.

In January 2005, in connection with the restructuring of the payments on loan obligations due in connection with the acquisition of Glyphics, the Company issued a warrant for 50,000 shares with an exercise price of \$0.55. The loan was guaranteed by Gary Moulton, the Company's senior vice president of audio services, as well as a shareholder of the Company, both of whom were formerly owners of Glyphics. The warrant expires in January 2007. The fair value of the warrant of \$8,000 was estimated using the Black-Scholes pricing model with the following assumptions: contractual and expected life of two years, volatility of 72%, dividend yield of 0%, and a risk-free rate of 3.1%. In June 2005, in connection with the restructuring of the payments, the Company issued a warrant for 50,000 shares to the Glyphics shareholder with an exercise price of \$0.32. The warrant expires in June 2007. The fair value of the warrant of \$6,500 was estimated using the Black-Scholes pricing model with the following assumptions: contractual and expected life of two years, volatility of 71%, dividend yield of 0%, and a risk-free rate of 3.6%. Subsequent to yearend, on April 1, 2006, the Company issued an additional warrant for 50,000 shares with an exercise price of \$0.40. The warrant expires in April 2009. The fair value of the warrant of \$15,000 was estimated using the Black-Scholes pricing model with the following assumptions: contractual and expected life of three years, volatility of 125%, dividend yield of 0%, and a risk-free rate of 4.83%. Subsequent to yearend, the expiration dates of the warrants issued in January 2005 and August 2005 were extended to March 31, 2009. Based on an analysis using the Black-Scholes pricing model, no adjustment was made to the fair value of the two extended warrants.

### 11. INCOME TAXES

Significant components of the provision for income taxes were as follows (IN THOUSANDS):

YEAR ENDED      YEAR ENDED

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	MARCH 31, 2006	MARCH 31, 2005
Current tax expense:		
Federal.....	(1,010)	(2,033)
State.....	(1,915)	(359)
Total current.....	(2,925)	(2,392)
Deferred tax expense:		
Federal.....	1,010	2,033
State.....	1,915	359
Total deferred.....	2,925	2,392
Expense for income taxes.....	--	--

The Company incurred no tax expense for the years ending March 31, 2006 March 31, 2005 and March 31, 2004 due to the losses incurred in all periods presented.

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Significant components of the Company's deferred tax assets (liabilities) were as follows (IN THOUSANDS):

	MARCH 31,	
	2006	2005
Deferred tax assets:		
Reserves for uncollectible accounts.....	\$ 48	\$ 3
Deferred revenue.....	17	44
Accrued expenses.....	194	20
Property and equipment.....	269	--
Net operating loss carryforward.....	15,355	12,41
Total deferred tax assets.....	\$ 15,883	\$ 13,09
Deferred tax liabilities:		
Glyphics book/tax differences.....	(1,132)	(1,13
Property and equipment.....	--	(4
Intangible assets.....	(1,124)	(19
Total deferred tax liabilities.....	(2,256)	(1,37
Net deferred tax asset.....	13,627	11,71
Less: valuation allowance.....	(13,627)	(11,71
Net deferred tax asset.....	\$ --	\$ --

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

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THOUSANDS) :

	YEAR ENDED MARCH 31, 2006	YEAR ENDED MARCH 31, 2005	YEAR ENDED MARCH 31, 2004
Tax (benefit) at U.S. Statutory rate (34%).....	\$ (398)	\$ (1,811)	\$ (780)
State income taxes (benefit), net of federal tax.....	(70)	(319)	(62)
Non-deductible expenses and other.....	6	(18)	(68)
Change in valuation allowance, net.....	462	2,148	910
	-----	-----	-----
Total tax expense (benefit).....	\$ --	\$ --	\$ --
	=====	=====	=====

At March 31, 2006, the Company had federal and State of Arizona net operating loss carry-forwards available to reduce future taxable income of approximately \$41,282,000 and \$21,981,000, respectively, which begin to expire in 2013 and 2006, respectively. The Company has certain net operating losses in other states relating to its acquisitions (see Note 8). The Company is currently quantifying such net operating losses and evaluating the Company's ability to use them. The Company recorded a valuation allowance for its entire deferred tax asset because it concluded it is not likely it would be able to realize the tax assets due to the lack of profitable operating history of its implementation of the Web conferencing and audio conferencing business plan.

In accordance with Internal Revenue Code Section 382, the annual utilization of net operating loss carry-forwards and credits existing prior to a change in control, as defined, in the Company or a company the Company has acquired may be substantially limited. Accordingly, the utilization of a substantial portion of the Company's net operating loss carry-forwards is limited, such as net operating loss carry-forwards are either related to the acquisition of ThoughtWare Technologies, Learning-Edge, Inc., Glyphics, and other acquired entities, or are related to current operations during which change in control events may have occurred. The net change in the valuation allowance for the year ended March 31, 2006 was \$1,913,000. The net change in the valuation allowance for the year ended March 31, 2006 was \$1,913,000. The net change in the valuation allowance for the year ended March 31, 2005 was \$1,016,000 which includes the reduction for the \$1,132,000 deferred tax liability assumed in the Glyphics acquisition.

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### 12. STOCK OPTION PLANS AND WARRANTS

The Company grants stock options under its amended and restated 1997 Stock Compensation Plan (the "Plan"). The Company recognizes stock-based compensation issued to employees at the intrinsic value between the exercise price of options granted and the fair value of stock for which the options may be exercised. However, pro forma disclosures as if the Company recognized stock-based compensation at the fair value of the options themselves are presented below.

Under the Plan, as amended, the Company is authorized to issue 5,500,000 shares of common stock pursuant to "Awards" granted to officers and key employees in the form of stock options. The number of shares authorized as available for issue under the plan were increased from 3,500,000 at the 2005 Annual Meeting of Stockholders held on August 19, 2005.

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There were 2,637,864 and 2,438,018 options granted under the Plan, at March 31, 2006 and 2005, respectively. The Compensation Committee of the Board of Directors administers the Plan. Stock options granted to employees have a contractual term of 10 years (subject to earlier termination in certain events) and have an exercise price no less than the fair market value of the Company's common stock on the date grant. The options vest at varying rates over a one to five year period.

Following is a summary of the status of the Company's stock options as of March 31, 2006:

	NUMBER OF SHARES UNDERLYING OPTIONS	WEIGHTED AVERAGE EXERCISE PRICES	WEIGHTED AVE FAIR-VALUE OPTIONS GRA
Outstanding at March 31, 2003.....	1,835,865	1.82	
Granted.....	632,500	0.67	\$ 0.56
Exercised.....	--	--	
Forfeited.....	(185,510)	2.64	
Expired.....	--	--	
Outstanding at March 31, 2004.....	2,282,855	\$ 1.43	
Granted.....	702,900	0.66	\$ 0.56
Exercised.....	(151,160)	0.51	
Forfeited.....	(370,688)	0.72	
Expired.....	(25,889)	6.13	
Outstanding at March 31, 2005.....	2,438,018	\$1.32	
Granted.....	815,500	0.29	\$ 0.22
Exercised.....	--	--	
Forfeited.....	(606,307)	1.01	
Expired.....	(9,347)	1.05	
Outstanding at March 31, 2006.....	2,637,864	\$1.07	

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The following table summarizes information about stock options outstanding at March 31, 2006:

		OPTIONS OUTSTANDING			OPTIONS
		NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES
\$	0.01 - \$	2,013,349	\$ 0.50	7.13	1,461,320

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\$ 1.00 - \$ 1.99	104,125	\$ 1.61	4.78	96,688
\$ 2.00 - \$ 2.99	430,000	\$ 2.22	3.28	430,000
\$ 3.00 - \$ 8.50	90,390	\$ 7.70	2.43	90,390
	-----			-----
	2,637,864			2,078,398
	=====			=====

During the 2006 fiscal year, no stock options were exercised by employees of the Company.

The following table summarizes information about stock purchase warrants outstanding at March 31, 2006:

				WARRANTS OUTSTANDING			WARRANTS
				WEIGHTED	WEIGHTED AVERAGE		
				AVERAGE	REMAINING	CONTRACTUAL	
				EXERCISE	LIFE (YEARS)		NUMBER OF
				PRICE			SHARES
				NUMBER OF			
				SHARES			
\$ 0.32 - \$ 0.32	50,000	\$ 0.32	1.19	50,000			
\$ 0.40 - \$ 0.40	250,000	\$ 0.40	0.64	250,000			
\$ 0.42 - \$ 0.42	543,182	\$ 0.42	5.39	543,182			
\$ 0.44 - \$ 0.44	132,972	\$ 0.44	5.45	132,972			
\$ 0.50 - \$ 0.50	700,000	\$ 0.50	2.50	700,000			
\$ 0.55 - \$ 0.55	50,000	\$ 0.55	0.76	50,000			
\$ 1.50 - \$ 1.50	921,510	\$ 1.50	1.39	921,510			
	-----			-----			
	2,647,664			2,647,664			
	=====			=====			

13. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

The Company leases a portion of its property and equipment under the terms of capital and operating leases. The capital leases bear interest at varying rates ranging from 5.6% to 15.0% and require monthly payments.

Assets recorded under capital leases, at March 31, 2006, consisted of the following (IN THOUSANDS):

Cost.....	\$ 412
Less: accumulated amortization.....	(376)
	-----
Total.....	\$ 36
	=====

Future minimum lease payments under capital leases and non-cancelable operating leases with initial or remaining terms of one or more years consisted of the following at March 31, 2006 (IN THOUSANDS):

	CAPITAL	OPERATING
	-----	-----
Amounts past due.....	\$ --	\$ 7

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2007.....	71	532
2008.....	--	412
2009.....	--	282
2010.....	--	279
2011.....	--	290
Thereafter.....	--	269
Total minimum obligations.....	71	\$ 2,071
Less: amount representing interest.....	(1)	=====
Present value of minimum obligations.....	70	
Less: current portion.....	(70)	
Long-term obligation at March 31, 2006.....	\$ 0	=====

The Company incurred rent expense of \$604,000, \$569,000, and \$470,000 in fiscal 2006, 2005, and 2004, respectively. The Company occupies space in Phoenix, Arizona, where the Company is headquartered. The Company also leases space in Springville, Utah as a result of the acquisition of Glyphics, and space in Troy, New York, with an emphasis in that location on research and development and technical support.

Subsequent to March 31, 2006, the Company amended the lease on its Phoenix location, which was set to expire February 28, 2007. The term was extended to February 28, 2012, and square footage and the related expense was reduced as a result of the amendment. In addition, a cancellation clause was added. Under the cancellation terms, the Company may cancel the lease, with nine months' notice effective February 28, 2009 or February 28, 2010 with a nine-month or six-month base rent penalty, respectively.

### SUBCONTRACTOR AGREEMENT

Subsequent to March 31, 2006, the Company amended its agreement with its custom content subcontractor, Interactive Alchemy. The original agreement was a three-year agreement effective May 1, 2003. The amendment dated April 29, 2006 extends the agreement for an additional non-cancelable two-year term effective May 1, 2006. Under the revised agreement, Interactive Alchemy will continue to provide custom content development services to the Company for its customers in exchange for a fixed percentage of the Company's custom content fee. The Company will also receive a specified amount of fees from Interactive Alchemy limited to a cap of \$200,000 in the first year and \$450,000 in the second year of the amended agreement.

### ROYALTY AGREEMENTS

In conjunction with the acquisition of certain assets from Mentergy, Inc. ("Mentergy"), the Company agreed to provide a royalty earn-out payment that is due upon collection of cash received from the sales of its Web conferencing software. The royalty earn-out was originally equal to 20% for all revenues collected from the sale of that Web conferencing software over a three-year period beginning November 4, 2002, with the first \$600,000 of collected revenues not subject to the royalty, and the maximum amount being \$5,000,000. After negotiating a settlement with one of the original participants in the Mentergy transaction during fiscal 2005, the royalty was reduced to 18.7%. The Company accounts for any such amounts collected as additional purchase consideration in accordance with EITF 95-8: "Accounting For Contingent Consideration Paid To The Shareholders Of An Acquired Enterprise In A Purchase Business Combination" at the time such amounts are accrued as revenue. The Company had accrued Mentergy royalties totaling \$890,000 and \$872,000 as of March 31, 2006 and March 31,



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2005, respectively (the "Royalty Accrual Amount"). In the prior year, the royalty was calculated on the accrual basis for consistency with the Company's revenue recognition policies. Since the royalty agreement term ended on November 4, 2005 the obligation at March 31, 2006 has been adjusted to reflect amounts due on the collection of cash received on the sales of Web conferencing software through November 4, 2005. On October 10, 2005, Mentergy and the Company executed a payment agreement that provides, notwithstanding the termination of the

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royalty accrual, negotiated payment terms that would require an initial payment of \$100,000 within 15 days of approval of the agreement followed by 12 level installment payments of \$76,212 plus interest per month and a balloon payment for the entire remaining balance due on November 15, 2006, but with the accrual of additional royalties terminating as originally intended on November 4, 2005. As of March 31, 2006, the Company paid \$252,000, net of interest, to Mentergy in accordance with the payment agreement. Subsequent to March 31, 2006 through the date of this report, the Company paid an additional \$229,000, net of interest, to Mentergy.

### EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with Mr. Powers, Mr. Dunn, Mr. Coccozza, and Mr. Moulton. All are or were officers, and Mr. Powers is also Chairman of the Board of Directors. Mr. Coccozza's employment agreement with the Company expired on January 6, 2006 and is currently being renegotiated. Each of these agreements provides for an annual base salary in an amount not less than the initial specified amount and entitles the employee to participate in all of the Company's compensation plans. Each agreement establishes a base annual salary and provides the eligibility for an annual award of bonuses based on the management incentive compensation plan (as adopted and amended by the Compensation Committee of the Board of Directors from year to year), and is subject to the right of the Company to terminate their respective employment at any time without cause. Mr. Powers' and Mr. Dunn's employment agreements provide for continuous employment for a one-year term that renews automatically unless otherwise terminated. Mr. Dunn's employment agreement permits Mr. Dunn to work outside the corporate offices, and Mr. Dunn relocated to Houston in June of 2005. Mr. Moulton's agreement provides for continuous employment for a two-year term. Under each of the employment agreements, if the Company terminates the employee's employment without cause (as therein defined), Mr. Powers, Mr. Dunn, and Mr. Moulton will be entitled to a payment equal to 12 months' salary. Additionally, Mr. Powers' and Mr. Dunn's employment agreements provide for a severance payment equal to one (1) year's compensation in the event of termination of employment following a "change in control" of the Company (as defined therein) except that should Mr. Dunn obtain employment with the successor organization in a comparable position, then the Company shall not be responsible for the severance payment. Each of the foregoing agreements also contains a covenant limiting competition with iLinc for one year following termination of employment except for Mr. Moulton's which limits competition with iLinc for nine months following termination.

### LITIGATION

On June 14, 2002, the Company acquired the assets of Quisic. Subsequently, on November 4, 2002, two former employees of Quisic (Mr. Weathersby their former CEO and Mr. Alper their former CIO), filed a lawsuit in the Superior Court of the State of California styled George B. Weathersby, et

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al. vs. Quisic, et al. claiming damages against Quisic and the Board of Directors of Quisic arising from their employment termination by the Quisic Board. The Company was also added as a third party defendant with an allegation of successor liability, but only to the extent that Quisic is found liable, and then only to the extent the plaintiffs prove their successor liability claim against the Company. Subsequent to the defendants' answers being filed, the trial court ordered that an arbitration of the merits be held, which is currently pending. The claims of Alper and Weathersby were being arbitrated separately. As of the date of this report, the arbitrator dismissed all of Alper's claims against the defendants, except for the only remaining defamation claim. The Company is not liable for the defamation claim and therefore has no further liability to Alper. The Company only acquired certain assets of Quisic in an asset purchase transaction in exchange for 2,000,000 shares of the Company's common stock and the assumption of \$223,000 of liabilities, together with an additional 500,000 shares of the Company's common stock that were placed into escrow to secure a revenue performance requirement. That revenue performance target was not achieved, and the Company demanded the return of the shares of common stock. The shareholders of Quisic do not dispute the right of the Company to obtain those shares. However, the shares will remain in escrow pending resolution of the party's respective claims. Based upon the facts and circumstances known, the Company believes that the plaintiffs' claims are without merit, and furthermore, that the Company is not the successor of Quisic, and therefore the Company intends to vigorously defend this aspect of the lawsuit. While in the opinion of management, resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur that awarded to the Plaintiffs against defendant Quisic large sums, and then the court determined that the Company is a successor to Quisic, then the impact is likely to be material to the Company.

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### 14. RELATED PARTY TRANSACTIONS

In December 2001, the Company, under the initiative of the Compensation Committee with the approval of the Board of Directors, issued its Chief Executive Officer an incentive stock grant under the 1997 Stock Compensation Plan of 450,000 restricted shares of the Company's common stock as a means to retain and incentivize the Chief Executive Officer. The shares were valued at \$405,000 based on the closing price of the stock on the date of grant, which is recorded as compensation expense ratably over the ten-year vesting period. The shares 100% vest after 10 years from the date of grant or upon attaining the following share price performance criteria: 150,000 shares vest if the share price trades for \$4.50 per share for 20 consecutive days; 150,000 shares vest if the share price trades for \$8.50 per share for 20 consecutive days; and 150,000 shares vest if the share price trades for \$12.50 per share for 20 consecutive days.

Subsequent to March 31, 2006, the Compensation Committee of the Board of Directors amended the vesting performance criteria hurdles as follows: 150,000 shares vest if the share price trades for \$1.00 per share for 20 consecutive days; 150,000 shares vest if the share price trades for \$2.00 per share for 20 consecutive days; and 150,000 shares vest if the share price trades for \$3.00 per share for 20 consecutive days. All other aspects of the grant remained the same.

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In connection with the restricted stock grant, the Company loaned the Chief Executive Officer \$179,000 to fund the immediate tax consequences of the grant. The Company recognized a \$179,000 charge to income at the date of grant.

During fiscal 2006, 2005 and 2004, the Company recognized \$30, \$900 and \$18,200 respectively of legal expense to the Bogatin law firm of which a member of the Company's Board of Directors is a partner.

In May of 2003, Barnhill's Buffet purchased 50 LearnLinc Core Licenses with Voice-over IP and 2-way Live Videoconferencing plus annual maintenance for \$62,000. The remaining balance due under this contract was \$0 at March 31, 2006 and 2005, respectively. The price paid and the payment terms granted to Barnhill's was consistent with price paid and the terms extended to other customers of the Company. During fiscal 2006, the Company recorded revenue of \$31,000 in relationship to the maintenance contract for licenses sold to Barnhill's Buffet. James M. Powers, Jr. is a co-founder and was a director of Barnhill's Buffet.

On July 21, 2005, James L. Dunn Jr., the Company's CFO, purchased a note from one of the IPO Note holders. The note had a principal balance of \$8,375 and was purchased at a discount. Mr. Dunn extended the term of the note that was then due until April 1, 2006. On September 30, 2005, the father of James L. Dunn Jr. invested \$25,000 in the Company's Series B Preferred Stock Offering and acquired 2,500 shares of iLinc Communications' Series B Preferred Stock and a Warrant to purchase 25,000 shares of the Company's common stock. The warrant is exercisable immediately at an exercise price of \$0.50 and expires on September 30, 2008. Mr. James L. Dunn Jr. has no direct and beneficial interest in his father's investment.

On July 31, 2005, the Company exchanged a convertible promissory note that had been issued in March of 2002 to Peldawn, LLC, of which Mr. Dan Robinson, a member of the Company's Board of Directors, is a partner. The note had an original principal balance of \$25,000 and was originally convertible at \$1.00 per share. As part of the Company's plan to decrease debt and increase shareholders' equity, in combination with holders of \$525,000 principal balance of 2002 convertible redeemable notes, the note including principal and accrued interest was exchanged using a price of \$0.30 per share into 84,183 shares of the Company's common stock. Due to the revised conversion terms of the convertible notes, the Company recorded \$12,000 of conversion expense. The transaction resulted in accelerated amortization of the deferred offering costs and the discount and beneficial conversion features associated with the debt by expensing \$2,400 and \$6,500, respectively at the time of conversion. The conversion price was above the fair market value of the Company's common stock on the date of conversion and was on the same terms as like holders.

On August 16, 2005, Dr. James Powers, the Company's CEO, and his wife, exchanged convertible promissory notes that had been issued in March 2002. The notes had an original balance of \$50,000 and were originally convertible at \$1.00 per share. As part of the Company's plan to decrease debt and increase shareholders' equity, in combination with holders of \$525,000 principal balance of 2002 convertible redeemable notes, the notes were converted at a price of \$0.26 per share into 192,308 share of the Company's common stock. Due to the revised conversion terms of the convertible notes, the Company recorded \$36,000 of conversion expense. The transaction resulted in accelerated amortization of the deferred offering costs and the discount and beneficial conversion features associated with the debt by expensing \$4,800 and \$13,000, respectively at the time of conversion. The conversion price was above the market value of the Company's common stock on the date of the conversion and was on the same terms as like holders.

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On September 30, 2005, Mr. Kent Petzold, a member of the Company's Board of Directors, invested in the Company's Series B Preferred Stock offering and acquired 5,000 shares of iLinc Communications Series B Preferred Stock and a Warrant exercisable for 50,000 shares of the Company's common stock. Mr. Petzold paid \$50,000 in the aggregate for such securities on the same terms as all other investors in the offering. The Warrant is immediately exercisable at an exercise price of \$0.50 and expires on September 30, 2008.

At March 31, 2006, the Company owed the four Board of Directors' fees totaling \$69,000 for services performed during the 2006 fiscal year.

15. SUPPLEMENTAL CASH FLOW INFORMATION

	YEAR ENDED MARCH 31, 2006	YEAR ENDED MARCH 31, 2005	Y M
-----			
(IN THOUSANDS)			
Cash paid			
Interest.....	\$ 933	\$ 1,010	\$
Income taxes.....	--	--	
Supplemental information on non-cash transactions			
Subordinated notes, Series A conversion into common shares....	--	--	
Debt conversion into common shares.....	225	583	
Convertible redeemable subordinated notes and accrued interest converted into common shares.....	533	494	
Issuance of common stock in connection with acquisitions.....	120	2,763	
Accounts Payable and Accrued liabilities converted into common shares.....	550	--	
Warrants issued with preferred stock.....	55	--	
Warrant conversion expense due to warrant repricing.....	7	--	

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16. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth summary quarterly results of operations for the Company for the years ended March 31, 2006 and 2005:

2006	FIRST QUARTER	SECOND QUARTER
-----	-----	-----
(IN THOUSANDS) PER SHARE		
Net revenue .....	\$ 2,673	\$ 3,005

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Cost of revenues and operating expenses .....	3,131	2,693
Income/ (loss) from operations .....	(458)	312
Income/ (loss) from continuing operations before income taxes ..	(892)	(526)
Income taxes .....	--	--
Income/ (loss) from continuing operations .....	(892)	(526)
Income from discontinued operations .....	7	5
Net income/ (loss) .....	\$ (885)	\$ (521)
Income/ (loss) available to common shareholders .....	\$ (910)	\$ (602)
Basic and diluted per share data: (1)		
Income/ (loss) per common share from continuing operations ...	\$ (0.04)	\$ (0.02)
Income/ (loss) per common share from discontinued operations .....	--	--
Weighted average common share outstanding:		
Basic .....	24,145	25,855
Diluted .....	24,145	25,855
	FIRST	SECOND
2005	QUARTER	QUARTER
-----	-----	-----
		(IN THOUSAN
		PER SHARE
Net revenue .....	\$ 1,970	\$ 2,734
Cost of revenues and operating expenses .....	2,824	4,100
Loss from operations .....	(854)	(1,366)
Loss from continuing operations before income taxes .....	(1,456)	(1,802)
Income taxes .....	--	--
Loss from continuing operations .....	(1,456)	(1,802)
Income/ (loss) from discontinued operations .....	--	--
Net loss .....	\$ (1,456)	\$ (1,802)
Loss available to common shareholders .....	\$ (1,485)	\$ (1,828)
Basic and diluted per share data: (1)		
Loss per common share from continuing operations.....	\$ (0.07)	\$ (0.08)
Income/ (loss) per common share from discontinued operations .....	\$ --	\$ --
Weighted average common share outstanding:		
Basic and diluted .....	20,297	24,132

(1) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share does not equal the total computed for the year due to stock transactions that occurred.

17. SUBSEQUENT EVENTS

Subsequent to March 31, 2006, the maturity date of a \$400,000 note payable, assumed in the Glyphics acquisition with a principal balance of \$397,000 was extended from April 1, 2006 to April 1, 2007, with quarterly interest-only payments at 7.5% due until maturity.

Subsequent to year end, on April 1, 2006, the Company issued a warrant for 50,000 shares with an exercise price of \$0.40 in connection with the

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extension of a \$397,000 loan. The warrant expires in April 2009. The fair value of the warrant of \$15,000 was estimated using the Black-Scholes pricing model with the following assumptions: contractual and expected life of three years, volatility of 125%, dividend yield of 0%, and a risk-free rate of 4.83%. Subsequent to year end, the expiration dates of the warrants issued in January 2005 and August 2005, also issued in connection with the \$397,000 loan, were extended to March 31, 2009. Based on an analysis using the Black-Scholes pricing model, no adjustment was made to the fair value of the two extended warrants.

On April 29, 2006, the Company amended its agreement with its custom content subcontractor, Interactive Alchemy. The original agreement was a three-year agreement effective May 1, 2003. The amendment extends the agreement for an additional non-cancelable two-year term effective May 1, 2006. Under the revised agreement, Interactive Alchemy will continue to provide custom content development services to the Company for its customers in exchange for a fixed percentage of the Company's custom content fee. The Company will also receive a specified amount of fees from Interactive Alchemy limited to a cap of \$200,000 in the first year and \$450,000 in the second year of the amended agreement.

Subsequent to March 31, 2006, the Company amended the lease on its Phoenix location, which was set to expire February 28, 2007. The term was extended to February 28, 2012, and square footage and the related expense was reduced as a result of the amendment. In addition, a cancellation clause was added. Under the cancellation terms, the Company may cancel the lease, with nine months' notice effective February 28, 2009 or February 28, 2010 with a nine-month or six-month base rent penalty, respectively.

Subsequent to March 31, 2006, on June 9, 2006, the Company completed a private placement of 5.4 million unregistered, restricted shares of common stock for approximately \$2.0 million in gross proceeds. The Company paid its placement agent an underwriting commission of \$180,000 of which \$25,000 was recorded as deferred offering costs at March 31, 2006 and incurred additional offering expenses of approximately \$50,000. Within 30 days of the closing date, the Company will file a Registration Statement on Form S-3 to enable the resale of the shares by the Investors. The Company intends to use the proceeds for working capital and general corporate purposes.

Subsequent to March 31, 2006, the Compensation Committee of the Board of Directors amended the vesting performance criteria hurdles in the Restricted Stock Award issued to its Chief Executive Officer, James M. Powers, Jr., as follows: 150,000 shares vest if the share price trades for \$1.00 per share for 20 consecutive days; 150,000 shares vest if the share price trades for \$2.00 per share for 20 consecutive days; and 150,000 shares vest if the share price trades for \$3.00 per share for 20 consecutive days. All other aspects of the grant remained the same. (For further information see the discussion in Item 5.)

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

### ITEM 9A. CONTROLS AND PROCEDURES

The Company evaluated the design and operation of its disclosure controls and procedures to determine whether they are effective in ensuring that it discloses the required information in a timely manner and in accordance with the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and forms of the Securities and Exchange Commission. Management, including its principal executive officer and principal financial officer, supervised and participated in the evaluation. The principal executive officer and principal financial officer concluded, based on their review, that its disclosure controls and procedures, as defined by Exchange Act Rules 13a-15(e) and 15d-15(e), are

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effective and ensure that (i) it discloses the required information in reports that it files under the Exchange Act and that the filings are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) information required to be disclosed in reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

During the fourth quarter ended March 31, 2006, no changes were made to its internal controls over financial reporting that materially affected or were reasonably likely to materially affect these controls subsequent to the date of their evaluation.

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### ITEM 9B. OTHER

None

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item with respect to the Company's directors and executive officers and compliance by the Company's directors, executive officers and certain beneficial owners of the Company's common stock with Section 16(a) of the Exchange Act will be set forth under the captions "Election of Directors" and "Section 16 Reports" in the Company's definitive Proxy Statement (the "2006 Proxy Statement") for its 2006 annual meeting of stockholders, which sections are incorporated herein by reference. The Company's Code of Ethics is incorporated herein by this reference and available at the Company's Website located at [www.ilinc.com](http://www.ilinc.com).

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in the section entitled "Executive Compensation" in the 2006 Proxy Statement, which section is incorporated herein by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this item will be set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the 2006 Proxy Statement, which section is incorporated herein by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be set forth in the section entitled "Certain Transactions" in the 2006 Proxy Statement, which section is incorporated herein by reference.

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### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Epstein, Weber & Conover, PLC audited the Company's consolidated financial statements for the years ended March 31, 2005 and 2006. BDO Seidman, LLP audited its consolidated financial statements for the year ended March 31, 2004.

#### AUDIT AND NON-AUDIT FEES

Aggregate fees for professional services rendered to the Company by Epstein, Weber & Conover, PLC, by BDO Seidman, LLP and by Evers & Company, LTD. for the year ended March 31, 2006 were \$111,280, \$30,350 and \$3,500, respectively. Total aggregate fees for professional services for the years ended March 31, 2006 and 2005, respectively were as follows:

SERVICES PROVIDED	2006	2005
Audit Fees	\$109,600	\$149,392
Audit Related Fees	--	13,474
Tax Fees	3,500	--
All Other Fees	1,680	--
Total	\$114,780	\$162,866
	\$114,780	\$162,866

#### Audit Fees

The aggregate fees billed for the years ended March 31, 2006 and 2005, were for the audits of the Company's consolidated financial statements and reviews of the Company's interim consolidated financial statements included in the Company's annual and quarterly reports, and for services provided with respect to the Company's other regulatory filings. The fees reflected above for 2006 do not include fees paid to BDO Seidman, LLP of \$30,350 for the fiscal year ended March 31, 2006.

#### Audit Related Fees

The aggregate fees billed for the years ended March 31, 2006 and 2005 were primarily for services provided for review and consultation on acquisition, capital raising, and tender offer transactions.

#### Tax Fees

The aggregate fees billed for the years ended March 31, 2006 and 2005 were for miscellaneous tax consulting services performed by Evers and Company, LTD.

#### Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has implemented pre-approval policies and procedures related to the provision of audit and non-audit services. Under these procedures, the Audit Committee pre-approves both the type of services to be provided by its auditor and the estimated fees related to these services.

During the approval process, the Audit Committee considers the impact of the types of services and the related fees on the independence of the auditor. The services and fees must be deemed compatible with the maintenance of the auditor's independence, including compliance with SEC rules and regulations.



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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firms.

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Consolidated Balance Sheets as of March 31, 2006 and 2005.

Consolidated Statements of Operations for the years ended March 31, 2006, 2005, and 2004.

Consolidated Statements of Shareholders' Equity for the years ended March 31, 2006, 2005, and 2004.

Consolidated Statements of Cash Flows for the years ended March 31, 2006, 2005, and 2004.

Notes to the Consolidated Financial Statements.

(a) (2) FINANCIAL STATEMENT SCHEDULES

Reports of Independent Registered Public Accounting Firms

The following financial statement schedule is filed as a part of this Report under Schedule II on page 76. Schedule II -- Valuation and Qualifying Accounts for the three fiscal years ended March 31, 2006. All other schedules called for by Form 10-K are omitted because they are inapplicable or the required information is shown in the financial statements, or notes thereto, included herein.

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(a) (3) EXHIBITS.

EXHIBIT NUMBER -----	DESCRIPTION OF EXHIBITS -----
3.1(1)	Restated Certificate of Incorporation of the Company
3.2(1)	Bylaws of the Company
3.3(7)	Restated Certificate of Incorporation of the Company
3.4(7)	Amendment of Bylaws of the Company
3.5(8)	Restated Certificate of Incorporation of the Company
3.6(14)	Certificate of Designations of Series A Preferred Stock
3.7(15)	Certificate of Amendment of Restated Certificate of Incorporation of the Company
3.8	Revised Certificate of Designations of Series B Preferred Stock
4.1(1)	Form of certificate evidencing ownership of Common Stock of the

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	Company
4.6(7)	Form of certificate evidencing ownership of Common Stock of the Company
4.7(8)	Form of Convertible Redeemable Subordinated Note
4.9(14)	Form of Redeemable Warrant (2003 Private Placement Offering)
*10.1(20)	The Company's amended and restated stock compensation plan
*10.9(7)	Employment Agreement dated November 12, 2000 between the Company and James M. Powers, Jr.
*10.11(21)	Employment Agreement dated February 15, 2001 between the Company and James L. Dunn, Jr. with Amendments
10.14(9)	Plan of Reorganization and Agreement of Merger by and among the Company, Edge Acquisition Subsidiary, Inc. and the Stockholders of Learning-Edge, Inc.
10.15(10)	Plan of Reorganization and Agreement of Merger by and among the Company, TW Acquisition Subsidiary, Inc., ThoughtWare Technologies, Inc. and the Series B Preferred Stockholder of ThoughtWare Technologies, Inc.
10.16(11)	Asset Purchase Agreement by and among the Company and Quisic Corporation. Common Stock Purchase Agreement by and between the Company, Investor Growth Capital Limited, A Guernsey Corporation and Investor Group, L.P., A Guernsey Limited Partnership and Leeds Equity Partners III, L.P.
10.16(12)	Asset Purchase Agreement by and among the Company, and Mentergy, Inc. and its wholly-owned subsidiaries, LearnLinc Corp and Gilat-Allen Communications, Inc.
+10.17	Subcontractor Agreement between the Company and Interactive Alchemy, Inc. with Amendments
*10.18(17)	Employment Agreement dated January 6, 2004 between the Company and Nathan Cocozza
10.19(17)	Note Purchase Agreement dated February 12, 2004 between the Company and certain creditors
10.20(17)	Unit Purchase and Agency Agreement dated April 19, 2004 between the Company and Cerberus Financial, Inc.
10.21(17)	Placement Agency Agreement dated March 10, 2004 between the Company and Peacock, Hislop, Staley, and Given, Inc.
10.22(16)	Asset Purchase Agreement and Plan of Reorganization by and between the Company and Glyphics Communications, Inc.
*10.23(18)	Employment Agreement dated June 1, 2004 between the Company and Gary L. Moulton
*10.24(18)	Employment Agreement dated July 19, 2004 between the Company and John S. Hodgson
*10.25(19)	Employment Agreement dated March 14, 2005 between the Company and David Iannini
+10.26	Securities Purchase Agreements effective June 9, 2006
+10.27	Registration Rights Agreements effective June 9, 2006 +12Ratio of Earnings to Fixed Charges
14.1(18)	Code of Ethics
16(13)	Letter re Change in Certifying Accountant
+21.1	Subsidiaries of the Registrant
+23.1	Consent of Epstein, Weber & Conover, PLC
+23.2	Consent of BDO Seidman, LLP
+31.1	Chief Executive Officer Section 302 Certification
+31.2	Principal Financial Officer Section 302 Certification
+32.1	Chief Executive Officer Section 906 Certification
+32.2	Principal Financial Officer Section 906 Certification

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- (1) Previously filed as an exhibit to iLinc's Registration Statement on Form S-1 (No. 333-37633), and incorporated herein by reference.
- (2) Previously filed as an exhibit to iLinc's Registration Statement on Form S-4 (No. 333-78535), and incorporated herein by reference.
- (3) Previously filed as an exhibit to iLinc's Registration Statement on Form S-4 (No. 333-64665), and incorporated herein by reference.
- (4) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1998.
- (5) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1998.
- (6) Previously filed as an exhibit to iLinc's Annual Report on Form 10-K for the year ended March 31, 2000.
- (7) Previously filed as an exhibit to iLinc's Annual Report on Form 10-K for the year ended March 31, 2001.
- (8) Previously filed as an exhibit to iLinc's Annual Report on Form 10-K for the year ended March 31, 2002.
- (9) Previously filed as an exhibit to iLinc's Form 8-K filed October 16, 2001.
- (10) Previously filed as an exhibit to iLinc's Form 8-K filed January 30, 2002.
- (11) Previously filed as an exhibit to iLinc's Form 8-K filed July 2, 2002.
- (12) Previously filed as an exhibit to iLinc's Form 8-K filed December 20, 2002.
- (13) Previously filed as an exhibit to iLinc's Form 8-K filed April 3, 2003.
- (14) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003.
- (15) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2003.
- (16) Previously filed as an exhibit to iLinc's Form 8-K filed June 14, 2004.
- (17) Previously filed as an exhibit to iLinc's Annual Report on Form 10-K for the year ended March 31, 2004.
- (18) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004.
- (19) Previously filed as an exhibit to iLinc's Annual Report on Form 10-K for the year ended March 31, 2005.
- (20) Previously filed as an exhibit to iLinc's Annual Proxy Statement dated July 14, 2005.
- (21) Previously filed as an exhibit to iLinc's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2005.

\* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to the requirements of Item 15 of Form 10-K.

+ Furnished herewith as an Exhibit

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To the Stockholders and Board of Directors  
of iLinc Communications, Inc. and Subsidiaries:

In connection with our audit of the consolidated financial statements of iLinc Communications, Inc. and subsidiaries referred to in our report dated June 13, 2006, which is included in the Company's annual report on Form 10-K, we have also audited Schedule II for the year ended March 31, 2006. In our opinion, this schedule presents fairly, in all material respects, the information to be set forth therein.

/s/ Epstein, Weber & Conover, PLC  
Scottsdale, Arizona  
June 13, 2006

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors and Shareholders  
iLinc Communications, Inc. and Subsidiaries

The audit referred to in our report dated May 21, 2004 (which contains an explanatory paragraph indicating substantial doubt about iLinc Communications, Inc.'s ability to continue as a going concern), relating to the consolidated financial statements of iLinc Communications, Inc. as of March 31, 2004 and for the year ended March 31, 2004, which is contained in Item 8 of this Form 10-K included the audit of the consolidated financial statement schedule as of March 31, 2004 and for the year ended March 31, 2004 listed in the accompanying index. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statement schedules based upon our audits.

In our opinion such consolidated financial statement schedule for the year ended March 31, 2004 presents fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP  
  
Costa Mesa, California  
  
May 21, 2004

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ILINC COMMUNICATIONS, INC.  
VALUATION AND QUALIFYING ACCOUNTS  
SCHEDULE II

FISCAL YEAR	DESCRIPTION	BALANCE AT THE BEGINNING OF PERIOD	ADDITION	DEDUCTIONS	
			CHARGED TO BAD DEBT EXPENSE	RECOVERIES (1)	WRITE-OFF CHARGED TO ALLOWANCE
2006	Accounts receivable - allowance for doubtful accounts.....	\$ 84	\$ 114	\$ 3	\$ 75
2005	Accounts receivable - allowance for doubtful accounts.....	\$ 24	\$ 233	\$ 5	\$ 168
2004	Accounts receivable - allowance for doubtful accounts.....	\$ 172	\$ 24	\$ 142	\$ 30

(1) This amount represents recoveries for accounts which were not charged off; accordingly, these recoveries are reflected as a decrease in allowance and decrease to bad debt expense as the collection of recoveries are reflected as applications to the respective accounts and notes receivable.

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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, in the City of Phoenix, State of Arizona, on June 29, 2006.

ILINC COMMUNICATIONS, INC.

By: /s/ JAMES M. POWERS, JR.

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

By: /s/ JAMES L. DUNN, JR.

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James L. Dunn, Jr.  
Senior Vice President and  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934,  
this Report has been signed by the following persons on behalf of the Registrant  
and in the capacities and on the date indicated.

NAME -----	CAPACITY -----
/s/ JAMES M. POWERS, JR. ----- James M. Powers, Jr.	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
/s/ JAMES H. COLLINS ----- James H. Collins	Director
/s/ KENT PETZOLD ----- Kent Petzold	Director
/s/ DANIEL T. ROBINSON, JR. ----- Daniel T. Robinson, Jr.	Director
/s/ CRAIG W. STULL ----- Craig W. Stull	Director