

TRIBEWORKS INC  
Form 10QSB/A  
March 30, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE  
COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-QSB/A  
(Amendment No. 2)**

(Mark one)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2006

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE  
ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**TRIBEWORKS, INC.**

(Exact Name of Small Business Issuer as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**94-3370795**

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

**2001 152<sup>nd</sup> AVENUE NE  
REDMOND, WASHINGTON 98052**  
(Address of Principal Executive Offices)

**(425) 458-2360**

(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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As of the close of business on March 27, 2007, there were 26,331,805 shares outstanding of the issuer's common stock, par value \$0.0004 per share.

Transitional Small Business Disclosure Format: Yes " No p

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**EXPLANATORY NOTE**

1. On November 17, 2006 the Company filed a Form 10-QSB/A restating the financial statements for the quarter ended June 30, 2006 due to a change in accounting policies relating to the 2005 financial year. It has been determined that the changes made with regard to the capitalization of software development costs and the acquisition of AtlasTG should have been disclosed as a correction of an error. Consequently, full disclosure of this error has been made in the Notes accompanying this refiled Form 10-KSB/A (amendment No. 2) for the year ended December 31, 2005 filed contemporaneously with this filing. The changes made in this refiled 10-QSB/A pertain solely to the wording of Notes and Disclosure statements and in particular to Note L. The previous changes to the operating results and financial statements for the quarter ended June 30, 2006 as set out below in Notes 2, 3 and 4 remain unchanged
  
2. On January 20, 2006, Tribeworks completed the acquisition of 100% of the outstanding shares of TakeCareofIT Holdings Limited and its subsidiaries (d/b/a the Atlas Technology Group) (“AtlasTG”). Tribeworks paid \$37,235 in cash in consideration to the selling shareholders of AtlasTG and assumed various liabilities. The effect of this acquisition has been filed in a Form 8-K/A on November 17, 2006, which included a pro forma consolidation of AtlasTG into Tribeworks at December 31, 2005. These changes are reflected in the restated financial statements for the quarter ending June 30, 2006 and set out in new Notes K and L of this amended filing and the previous Note D setting out a pro forma consolidation of AtlasTG into Tribeworks has been removed and the other Notes renumbered accordingly. As a result of these amendments:
  - a. The investment in AtlasTG of \$1,073,744 has been brought into the December 31, 2005 comparative figures in the Balance Sheet on an unconsolidated basis as the acquisition did not take place until January 20, 2006;
  - b. The accumulated deficit at December 31, 2005 has been reduced by \$791,256 and as a result the Total Stockholders’ Equity is now \$415,583;
  - c. All of the other AtlasTG December 31, 2005 assets and liabilities as previously shown in Note D have been removed from the December 31, 2005 comparatives, leaving only the Tribeworks December 31, 2005 figures - see 3. below;
  - d. As of January 20, 2006 AtlasTG has been consolidated and as a result of the use of the purchase method of accounting, the purchase price was allocated to the tangible and intangible net assets acquired based on the management’s evaluation of their respective replacement values on the acquisition date in accordance with SFAS No. 141. \$835,192 of the purchase price has been allocated to the IT Technology acquired in the AtlasTG acquisition and has been recognized and included as an Intangible Asset in the June 30, 2006 Balance Sheet;
  - e. A similar adjustment for \$835,192 has been made to the consolidated accumulated deficit reducing the deficit from the previously reported \$5,319,479 to an accumulated deficit of \$4,484,287 and increasing the previously reported Total Stockholders’ Equity by the same amount to

\$1,295,820.

3. During the quarter end June 30, 2006 the Company entered into negotiations to sell the majority of the assets and liabilities of the former Tribeworks business, which were contained within the Company's wholly owned subsidiary, Tribeworks Development Corporation ("TDC"), to the former management of that company. As a result the assets and liabilities and business of TDC have been restated as discontinued operations within these amended financials statements and removed from their individual asset and liability lines and restated as \$126,282 of discontinued assets (the sum of the previous asset balances) and \$784,443 net liabilities, being the sum of the previously stated liability balances. The accumulated deficit remains unchanged. Similarly with regard to the Unaudited Consolidated Statements of Income (Loss):
  - a. All December 31, 2005 comparative figures have be summed into a net loss from discontinued operations of \$68,152 for the three months and \$26,389 for the six months to June 30, 2006;
  - b. In the original filing the June 30, 2006 figures had been separated into a column for Tribeworks and column for AtlasTG. The Tribeworks figures have now been summed and netted off to show a loss from discontinued operations of \$12,555 for the three months to June 30, 2006 and \$42,752 for the six months to June 30, 2006. The AtlasTG figures remain the same as previously filed.
  - c. By removing the additional column for Tribeworks the results for operations for both the three months to June 30, 2006 and for the six months to June 30, 2006, have been presented in columns in the same operating statement.
4. Further note explanations have been added to explain these changes and appropriate accounting standards associated with the amended results and presentation and with the removal of the previous Note D the Notes have been renumbered.

**To comply with certain technical requirements of the SEC's rules in connection with the filing of this amendment on Form 10-QSB/A and for convenience, we are setting forth in this amendment a restatement of the Form 10-QSB as amended hereby, and adding, as exhibits, certain current dated certifications of our principal executive and principal financial officers. Except for the matters described in this Explanatory Note, this amendment does not modify or update disclosures in, or exhibits to the Form 10-QSB originally filed on August 14, 2006. Furthermore, except for the matters described above, this amendment does not change any previously reported financial results, nor does it reflect events occurring after the date of the original Form 10-QSB.**

**TRIBEWORKS, INC.**  
**FORM 10-QSB/A FOR THE QUARTER ENDED JUNE 30, 2006**

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Exhibits

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Certification of CFO Pursuant to Rule 13a-14(a)

Certification of CEO Pursuant to Section 906

Certification of CFO Pursuant to Section 906

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.**

**TRIBEWORKS, INC.**  
**UNAUDITED CONSOLIDATED BALANCE SHEET**  
**JUNE 30, 2006**

	June 30, 2006	December 31, 2005 Restated
<b>Current Assets</b>		
Cash	\$ 1,058,475	\$ -
Prepaid expenses	8,378	-
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 1,066,853</b>	<b>-</b>
<b>Other Assets</b>		
Equipment, net of accumulated depreciation of \$110,259 - 2005: \$51,834	309,274	-
Software Development Costs	220,858	-
IT Technology	835,192	-
	1,365,324	-
Investment in Atlas		1,073,744
Net Assets of Discontinued Operations	98,953	126,282
<b>TOTAL ASSETS</b>	<b>\$ 2,531,130</b>	<b>\$ 1,200,026</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 338,793	\$ -
Accrued expenses	327,789	-
Due to stockholders	-	-
Income Taxes Payable	3,863	-
Notes payable	190,000	-
Other Loan	1,186	-
Deferred revenue	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>861,631</b>	<b>-</b>
Net Liabilities of Discontinued Operations	373,679	784,443
<b>Stockholders' Equity</b>		
Application Monies for new Stock		417,289
Preferred stock: \$.0004 par value, 10,000,000 shares authorized, 84,000 shares issued and outstanding	34	34
Common stock: \$.0004 par value, 200,000,000 shares authorized, 24,467,805 (2005 - 21,607,555) shares issued and outstanding	9,789	8,635
Additional paid-in capital	5,770,284	3,681,613
Accumulated deficit	(4,484,287)	(3,691,988)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,295,820</b>	<b>415,583</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,531,130</b>	<b>\$ 1,200,026</b>

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

**TRIBEWORKS, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

	Six Months Ended June 30,		Three Months Ended June 30,	
	2006	2005	2006	2005
REVENUES	\$ -	\$ -	\$ -	\$ -
COST OF SALES	-	-	-	-
GROSS PROFIT	-	-	-	-
<b>OPERATING EXPENSES</b>				
Product support	-	-	-	-
Product development	374,096	-	270,117	-
Sales and marketing	44,524	-	32,292	-
General and administrative	376,371	-	227,297	-
	794,991	-	529,706	-
INTEREST EXPENSE	2,288	-	(179)	-
OTHER INCOME (EXPENSE)	(756)	-	(756)	-
	1,532	-	(935)	-
INCOME (LOSS) BEFORE INCOME TAXES	(793,459)	-	(530,641)	-
INCOME TAXES	25	-	25	-
NET INCOME (LOSS)				
Continuing Operations	(793,484)	-	(530,666)	-
Discontinued Operations	(42,752)	(26,389)	(12,555)	\$ (69,998)
	\$ (836,236)	\$ (26,389)	\$ (543,221)	\$ (69,998)
<b>EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED</b>				
Continuing Operations	\$ (0.03)	\$ -	\$ (0.02)	\$ -
Discontinued Operations	\$ nil	\$ (0.02)	\$ nil	\$ (0.04)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED</b>				
	22,329,420	1,569,555	22,239,420	1,569,555

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



## TRIBEWORKS, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (836,235)	\$ (26,389)
Adjustments:		
Depreciation and FX adjustments	62,679	-
Changes in:		
Accounts receivable	-	-
Prepaid expenses	18,767	-
Accounts payable	(42,702)	-
Accrued expenses	145,681	-
Taxes payable	-	-
Net cash provided (used) by discontinued operations	188,606	(57,120)
Net cash provided (used) by operating activities	(463,204)	(83,509)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(122,607)	-
Loan advance	-	(378,739)
Software Development Costs	(220,858)	-
Net cash provided (used) by investing activities	(343,465)	(378,739)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of preferred stock	-	-
Reduction in short term loan	(10,572)	-
Increase in note payable	(14,825)	-
Proceeds from application monies received and options exercised (net of fees and costs)	1,672,535	-
Net cash provided by discontinued operations	14,810	469,748
Net cash provided (used) by financing activities	1,687,345	469,748
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>880,675</b>	<b>7,500</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>177,799</b>	<b>43,729</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 1,058,475</b>	<b>\$ 51,229</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
	June 30, 2006	June 30, 2005
Interest paid	\$ 389	\$ Nil
Income taxes paid	\$ 1,201	\$ Nil
<b>NON-CASH TRANSACTIONS:</b>		
Acquisition of IT Technology	\$ 835,192	\$ Nil

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



**TRIBEWORKS, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE A - PRINCIPLES OF PRESENTATION**

The accompanying unaudited financial statements of Tribeworks, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements, although the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial position as of June 30, 2006, and its results of operations and cash flows for the three months ended June 30, 2006 and 2005, have been included. However, operating results for the interim periods noted are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. This report should be read in conjunction with the Company's financial statements and notes thereto contained in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005.

Following the acquisition of Atlas (see Note B below) this has been regarded as the new operating business and the former business of the old Tribeworks (transferred into Tribeworks Development Corporation ("TDC"), which was sold on September 14, 2006, has been restated as a discontinued business. As the acquisition of Atlas took place on January 20, 2006 all of the 2005 comparative figures relate solely to the old Tribeworks business which is now discontinued.

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. The Company reported net losses during both 2005 and 2004, had a working capital deficiency of \$480,072 and \$760,073 for 2004 and 2005, respectively. The Company has reported a further loss of \$530,641 for the second quarter of 2006 and at June 30, 2006 it had working capital of \$205,222 for the continuing business and an equity surplus of \$1,295,820. The Company was previously in default on its note payable, but this has been repaid since June 30, 2006. In addition the Company had deferred payment of certain accounts payable and accrued expenses while further new equity was raised. New equity capital in the amount of \$1,425,000 was raised in June 2006 and since June 30, 2006 a number of these deferred payables have been paid and others will be dealt with at the time of the sale of TDC to its former management, which the Company expects will occur during the third quarter of 2006 and the assets of this businesses have been reclassified as discontinued operations in these financial statements.

In light of the Company's financial condition, on March 30, 2005, the Company announced a plan of reorganization. During 2005 the old business was separated into TDC, and approximately \$1 million of new equity was raised with the intention of investing in a new business of offsite IT support. On January 20, 2006, the Company acquired Atlas as the vehicle to develop this new business and is now included in the financial statements of Tribeworks and statement of operations as from January 2006. \$335,000 of new equity capital was raised in the first quarter of 2006 in addition to the \$400,000 raised in the fourth quarter of 2005. These amounts, together with an additional \$122,000 raised in early April 2006, comprise a total of \$857,000. This additional capital was obtained pursuant to a private placement to various accredited investors. In addition, in June 2006 \$1,425,000 of new equity (before fees and other expenses) was raised by way of a private placement of 1,140,000 shares at \$1.25 per share with an attached two year warrant to purchase a further share at \$1.75 for every two shares purchased in the private placement.

To fully develop this new business, which is now at the live beta and production testing stage, further equity will need to be raised to obtain revenues and profitability, the planning for which is currently under way for the fourth quarter of

2006. In view of the matters described above, there is still doubt about the Company's ability to continue as a going concern unless the placement of new equity is successful, although some modest revenue is now being generated. The recoverability of the recorded assets and satisfaction of the liabilities reflected in the accompanying balance sheets is dependent upon continued operation of the Company, which is in turn dependent upon the Company's ability to raise new equity to meet its cash flow requirements on a continuing basis and to succeed in its future operations. There can be no assurance that management will be successful in implementing its plans. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **NOTE B - NATURE OF BUSINESS**

The Company's business activity during 2005 and 2004 was a mixture of consulting services based on the iShell® technology and the sale of the iShell® technology, which provides tools for creating and delivering multimedia applications. Internet media developers use the iShell® technology for creation and deployment of electronic content that utilizes interactive features combining graphics, video, and audio content. The Company also exploited its software primarily through the licensing of its software tools to multimedia and software developers and through building customized licensed versions that include professional engineering to meet contract requirements.

On March 30, 2005, the Company announced that it had determined that this business was insufficient to sustain a viable public company, and that the Company had decided to pursue a plan of reorganization to attempt to increase its scope and profitability. The plan of reorganization that the Board of Directors approved included the transfer of most assets and liabilities (including the accrued salary obligations described in NOTE H) to TDC, one of the Company's operating subsidiaries, and the possible sale of TDC to certain current and former members of its management or others. This is an ongoing process, and some of the former business divisions have been transferred and others wound down, which is reflected in the accompanying consolidated financial statements.

On January 20, 2006, the Company acquired TakeCareofIT Holdings Limited, a Malta corporation, and its subsidiaries, who have been collectively doing business as Atlas Technology Group (collectively, "Atlas"). Atlas was established in September 2004 to provide external Information Technology (IT) application support services for organizations with large IT functions.

Atlas plans to become a leading IT outsourcing support company for custom software applications worldwide. Atlas is in the business of providing custom, outsourced application software support services to its customers. These services range from supporting specialized networks and single applications to providing the entire IT infrastructure management for customers who want to outsource everything and focus on their core business. In partnership with other IT development consultancies, Atlas can provide a fully outsourced IT capability, with hard performance metrics and predictable costs.

Atlas is leveraging the recent advances in software, monitoring systems, and communications to build a new, leading edge global support infrastructure, providing 24x7 software support to large and medium sized companies. The new application on-boarding and monitoring processes should allow for dramatic cost savings over existing legacy IT service providers.

Atlas will offer its services worldwide, with the majority of the targeted customers having multinational operations. It is intended to be a highly distributable venture, able to place people in the best possible locations, yet offering a seamless service offering across geographies.

Atlas has its head office in Malta with a subsidiary office in Wellington, New Zealand and a data center in Seattle, Washington. Atlas has 11 employees and 3 working directors. The initial support centers are based in Malta, with another support center in New Zealand, creating a "follow-the-sun" 24 hour coverage. As business grows, the Company intends to establish additional support centers as needed to increase capacity. State of the art VoIP (Voice over Internet Protocol, which allows telephone calls to be made over the Internet via computers), Call Tracking and Monitoring technology provide each employee with the leverage needed to maximize support delivery to the fullest possible extent. Two central data center locations will also be established to run the required infrastructure. All of these servers will be in a secure, fully redundant configuration, with on-demand high bandwidth available, as well as onsite backup and hands-on support services.

This business is still in the development stage but anticipates that initial testing with pilot customers will commence in the third quarter of 2006 and that the first modest levels of revenue will start in the third quarter.



## **NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Consolidation**

The financial statements of the Company are presented on a consolidated basis and include the Company and its wholly owned subsidiaries, TDC and (since the first quarter of 2006) Atlas, which consists of TakeCareofIT Holdings Limited, a Malta corporation; TakeCareofIT Limited, a Malta corporation; TakeCareofIT (NZ) Limited, a New Zealand corporation; and TakeCareofIT (US) Inc., a United States corporation. Following the acquisition of Atlas the consolidated income statement has been presented to the contributions and expenses of both the old Tribeworks business and the newly acquired Atlas business. As the acquisition of Atlas took place on January 20, 2006 all of the 2005 comparative figures relate solely to the old Tribeworks business.

All material intercompany transactions have been eliminated.

### **Use of Estimates**

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

### **Foreign Currency Translation**

With the acquisition of Atlas, which does business in Malta, New Zealand and the USA, transactions denominated in foreign currencies are translated at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated at the rates of exchange prevailing at the end-of-period exchange rates and the translation differences are dealt with through the profit and loss account.

### **Net Earnings (Loss) Per Common Share**

Basic earnings per share ("EPS") is computed based on net income (loss) divided by the weighted average number of common shares outstanding. Diluted EPS is computed based on net income (loss) divided by the weighted average number of common shares and potential common share equivalents outstanding. At the Company's annual meeting of stockholders held August 19, 2005, a one-for-three reverse stock split was approved, which reduced the number of common shares outstanding by two-thirds. All references in the accompanying consolidated financial statements to the number of common shares, number and exercise price of stock options and stock warrants, and per share amounts for the periods prior to the reverse stock split have been restated to reflect the reverse stock split.

### **Technology License**

The Company's principal business activity in 2005 and prior years was focused on the commercialization of the iShell® technology, which was developed by a former officer and director of the Company and an affiliate of the Company. In November 1999 the Company purchased all rights, title and interest in iShell® in exchange for \$100,000 and warrants to purchase 75,758 shares of common stock at an exercise price of \$1.32 per share, valued at \$30,000. The \$130,000 cost was fully authorized at December 31, 2002.

### **Software Development Costs**

The Company has in the past expensed all of its software development costs in the period the costs are incurred. With the new software purchased with Atlas and being developed by Atlas now reaching the live beta and production testing stages as of January 1, 2006, the Board of Directors has adopted Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed" ("SFAS 86") and has capitalized certain development costs that meet the requirements of SFAS 86.

As a result of the adoption of SFAS 86, \$64,951 (as compared to \$155,907 for the quarter ended March 31, 2006) of development costs have been capitalized. These capitalized costs will be amortized over three years from the date on which the new Atlas business goes into full commercialization. Not all of the development costs for the period meet the requirements of SFAS 86, and \$137,455 of development costs have been expensed in the period.



The Company's intangible assets are summarized as follows:

	June 30, 2006	Dec. 31, 2005
Software Development	220,858	-
IT Technology Acquired	835,192	-
Less: Accumulated Depreciation	-	-
	1,056,050	-

### Stock-Based Awards

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

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" (hereinafter "SFAS No. 148"). SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of the statement are effective for financial statements for fiscal years ending after December 15, 2002. The Company has adopted SFAS No. 123(R).

We did not grant any options to purchase shares of the Company's Common Stock during the three months ended June 30, 2006, or during the same period in 2005.

### NOTE D - NOTES PAYABLE

On January 21, 2001, the Company borrowed \$100,000 pursuant to a Private Placement Agreement with a third party lender. Under the terms of the agreement the lender, upon the closing of a "Qualified Financing" (as that term is defined in the agreement), could convert the loan to common stock of the Company. Such conversion never took place, and on June 12, 2003, the Company and the lender restructured this note. The original terms for the \$100,000 note accrued simple interest at 10%, with all principal and accrued interest due on demand. The restructured note accrues interest at 4% and was increased by \$20,000 for previously accrued interest. The new note is nonconvertible, and called for an initial payment of \$30,000, which was made during June 2003, and then monthly payments of \$3,500 through February 2005, with a final payment of \$24,201 in March 2005. If the Company made all note payments timely in accordance with the note agreement, the lender would have forgiven \$20,000 of the final payment. In accordance with Statement of Financial Accounting Standards No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings" ("SFAS 15"), the carrying value of the debt, including accrued interest, is equal to the total amount of future payments under the new note. The Company failed to make the scheduled note payments after September 2003 and has received notification of default from the lender. As such, the note was due in full on September 30, 2004 and is accruing default interest at a rate of 4% on the outstanding payment amounts of the note.

On March 30, 2005, the Company announced a plan of reorganization, intended to allow the Company to maintain its public reporting requirements, reduce its debt, and explore new business directions. The plan of reorganization included the transfer of most assets and liabilities to TDC, and the possible sale of TDC to certain current and former members of management or others. A note in an amount of up to \$100,000 was entered into as of March 29, 2005 to help cover reorganization costs.

As of December 31, 2005, the Company had borrowed \$91,474 against this note, increasing the total amount owing under this note to \$175,175. No further borrowings against this note were made in the quarter ended June 30, 2006, but a settlement was reached in July 2006 and the sum of \$190,000 was paid as full and final settlement. The additional cost of \$14,825 has been charged as an expense in the second quarter financial statements.

All of these liabilities are included in discontinued operations.

**NOTE E - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company's financial instruments include cash, receivables due to stockholders, loans payable and income taxes payable for which the Company believes that the fair value approximates their carrying amounts.

## **NOTE F - REVERSE STOCK SPLIT**

At the Company's annual meeting of stockholders held August 19, 2005, a one-for-three reverse stock split was approved, which reduced the number of common shares outstanding by two-thirds. All references in the accompanying consolidated financial statements to the number of common shares, number and exercise price of stock options and stock warrants, and per share amounts for the periods prior to the reverse stock split have been restated to reflect the reverse stock split.

## **NOTE G - COMMON STOCK AND WARRANT ISSUANCE**

During the quarter ended June 30, 2006, the Company made two issuances of shares:

- a) 1,714,000 shares of Common Stock at a price of \$0.50 per share. This was in exchange for \$735,000 of subscription monies held as at March 31, 2006 and \$122,000 of subscriptions received in April 2006.
- b) An additional 1,140,000 shares of Common Stock were sold during the quarter ended June 30, 2006 to five European investment funds at a price of \$1.25 per share. Along with these shares the Company also issued one warrant for every two new shares of Common Stock purchased. The warrants have an exercise price of \$1.75 per share. The warrants have a two year to expire on May 31, 2008. Each investor represented in writing to the Company that it "accredited investor" as that term is defined in Rule 501 of Regulation D promulgated Securities Act of 1933, as amended.
- c) In addition to brokerage and commission fees of \$85,500 for raising the funds discussed in b) above, Westmount Capital was issued 85,500 warrants with an exercise price of \$1.75 per share. These warrants have a two year term and expire on June 16, 2008.

As a result of these issues the total number of shares of Common Stock issued and outstanding increased to 24,467,805. Once the Series B Preferred Stock is converted the fully diluted capital of the Company will consist of 24,551,805 shares of Common Stock.

## **NOTE H - DEFERRED COMPENSATION ARRANGEMENT AND DISPUTE WITH FORMER EMPLOYEE**

Effective July 1, 2004, the Company entered into one-year compensation arrangements with two of its then executive officers. The arrangements provide for annualized salaries of \$120,000 and \$110,000 for the Company's Chief Executive Officer and Chief Financial Officer, respectively. As part of the arrangement, any of this compensation accrued but not paid can be converted, at the option of the applicable executive officer, into common shares of the Company at any time through June 30, 2007. The conversion rate is equal to the accrued amount divided by the average closing bid of the Company's common stock for the 20 trading days previous to the election date. The Company will hold any issued shares in escrow for one year following the date of conversion. Termination of employment during the one-year period causes the issued stock to be forfeited and returned to the Company and, as such, the outstanding salary underlying the forfeited stock is no longer owed. At June 30, 2006, the Company had recorded accrued but unpaid salary related to this arrangement of \$142,795. On March 29, 2005, the accrued salary under this arrangement, along with all of the Company's material assets and other material liabilities, excluding liabilities totaling approximately \$136,000, were assigned to TDC, a wholly owned subsidiary of Tribeworks, in March 2005.

On April 12, 2006, Robert Davidorf, a former director and officer of the Company, and on that date a director and officer of TDC, resigned. In his letter of resignation, Mr. Davidorf made certain claims for payment of approximately \$130,000 in accrued salaries (including \$95,388 relating to the above deferred compensation arrangement) and expenses allegedly owed to him. The Company disputes the amounts asserted by Mr. Davidorf as being owed to him.

We have not yet been served with a lawsuit and we are attempting to negotiate this claim with Mr. Davidorf as one of the potential purchasers of TDC. Settlement of this claim is still not certain and if not settled and should Mr. Davidorf file such a suit, the Company anticipates that it will raise a number of affirmative defenses and file counterclaims against Mr. Davidorf. The Company is unable at this time to make an assessment of the likely outcome of this dispute.

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**NOTE I - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

On January 20, 2006 the Company acquired Atlas, which over the past 18 months has been developing its new software system for providing external IT application support services for organizations with large IT functions. This work is being carried out by both Atlas employees and specialist consultants engaged to prepare modules of this new system. Some of these consultants are engaged through WebConsult, a registered Microsoft vendor, and they continue to carry out such work on normal commercial terms. Robert Altinger, a director of the Company, was formerly a consultant to and was associated with WebConsult.

During the second quarter the three executive directors of the Company were paid fees of \$10k per month in lieu of salary as compensation for their time until contracts are negotiated.

**NOTE J - SUBSEQUENT EVENTS**

(a) As described in Note D above, in July 2006 the note referred to in Note D above was repaid in full and final settlement and as a result there is no further default.

(b) During the period ended June 30, 2006 the Company elected to fully dispose of its wholly owned subsidiary, Tribeworks Development Corporation ("TDC") and this sale was completed on September 14, 2006 by way of 541368 LLC, a California limited liability company, purchasing 100% of the stock of TDC for an aggregate consideration of \$100 and the settlement of certain disputes between Tribeworks and certain members of the management of 541368 LLC, who formerly served as the management of Tribeworks and TDC (see Note H above). In addition, Tribeworks agreed to make a one-time cash payment of \$44,500 to TDC in full satisfaction of Tribeworks' obligations under an existing Support Agreement dated as of August 1, 2005 between the Tribeworks and TDC, and the Support Agreement was terminated pursuant to the sale agreement. The sale agreement also contained customary representations, warranties, covenants and mutual indemnity provisions. The assets and liabilities disposed of from the discontinued operations of TDC at June 30, 2006 are as follows:

**Assets:**

Accounts Receivable	108,661
Prepayments	4,291
Computers and equipments, net	811
Total assets	113,763

**Liabilities:**

Bank overdraft	14,810
Accounts payable and accruals	373,676
Total Liabilities	388,486

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (hereinafter "SFAS No. 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 was issued in June 2002, effective December 31, 2002 with early adoption encouraged. The effect on the Company's financial statement of the adoption of SFAS No. 146 is reflected in discontinued operations.

The Company's financial results of prior periods have been reclassified to reflect the discontinued operations of TDC in 2005. Condensed results of discontinued segments are as follows:

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	June 30, 2006	December 31, 2005
Net Sales	\$ 122,370	401,614
Net Income (Loss)	\$ (42,752)	\$ (12,555)

**NOTE K - ACQUISITION OF ATLAS TECHNOLOGY GROUP**

On January 20, 2006, the Company acquired 100 percent of the issued capital of TakeCareofIT Holdings Limited, a Malta corporation, and its subsidiaries, who have been collectively doing business as Atlas Technology Group (collectively, "Atlas") for \$37,235 in cash and assumed \$1,144,106 of current liabilities (of which \$1,073,744 plus interest was due to Tribeworks). Atlas was established in September 2004 to provide external Information Technology (IT) application support services for organizations with large IT functions. See Note B above.

The acquisition of Atlas was accounted for using the purchase method of accounting. The purchase price was allocated to the tangible and intangible net assets acquired based on the management's evaluation of their respective replacement values on the acquisition date in accordance with SFAS No. 141. Upon acquisition, Atlas became a wholly owned subsidiary of Tribeworks, Inc. The results of Atlas operations, commencing with the date of acquisition, January 20, 2006, are included in the accompanying June 30, 2006 financial statements.

The purchase price was allocated as follows:

Cash	\$ 93,273
VAT receivable	22,596
Deposits/Prepays	4,924
Equipment	225,030
IT Technology	835,192
	\$ 1,181,015

**NOTE L - CORRECTION OF ERROR IN CONNECTION WITH ACQUISITION OF ATLAS**

On January 20, 2006, Tribeworks completed the acquisition of 100% of the outstanding shares of TakeCareofIT Holdings Limited and its subsidiaries (d/b/a the Atlas Technology Group) as reported in Note K above. The effect of this acquisition has been filed in a Current Report on Form 8-K on November 17, 2006, which included a pro forma consolidation of AtlasTG 's financial results with those of Tribeworks at December 31, 2005. These changes were also disclosed in the restated financial statements for the year ending December 31, 2005 and set out in an amended Form 10-KSB/A filing made on December 21, 2006. These reports stated that the changes were due to changes in accounting policies due to the adoption Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed" ("SFAS 86") which had been adopted by the Company effective from January 1, 2006, after having initially written off an advance of \$1,073,744 made to AtlasTG to Product Development Expenditure under the previous accounting policies.

The Company now has determined that the changes made were not as a result of an adoption of a change in accounting policies but as a correction of an error. The comparative figures for 2005 have been corrected and restated to reflect this correction of error and for the effects of sale TDC on September 14, 2006 being treated as discontinued operations in the financial statements for the quarter ending June 30, 2006. The Company re-measured the cost of the business acquired by allocating the purchase price of \$1,181,015 to the acquired assets, intangibles, and assumed liabilities in accordance with Statements of Financial Accounting Standards No. 141 "Accounting for Business Combinations."

These corrections and restatements (See notes K and J above) had the following effect on the reported net loss and earnings per share. Previously the Company had expensed the loan to Atlas as software development costs. This has been reclassified as an investment in Atlas at December 31, 2005, which reduced the loss at December 31, 2005 from \$1,249,535 to \$175,791 and as a result the reported net loss per share was reduced from \$0.06 to \$0.02.

The proforma consolidated statement of operations for the six months ended June 30, 2005 presented below assumes that the combination occurred at the beginning of the periods presented in the statements. All intercompany accounts and transactions have been eliminated. These proforma financial statements should be read in conjunction with the historical financial statements and notes thereto of Tribeworks and Atlas. The proforma financial statements do not purport to be indicative of the financial positions and results of operations, which actually would have been obtained if the combination had occurred on the dates indicated, or the results, which may be obtained in the future.



**TRIBEWORKS, INC.**  
**Unaudited Statements of Operations**  
**Period Ended June 30, 2005**  
**UNAUDITED PROFORMA**

	Tribeworks Six Months Ended June 30,		Atlas	Proforma Combined Total
	2005	2005		
<b>Revenue</b>	\$	-	\$	-
<b>Cost of Revenue</b>		-		-
<b>Gross Profit</b>		-		-
<b>Operating Expenses</b>				
Selling and promotional		-	33,789	-
IT development		-	115,467	115,467
General and administrative		-	56,876	56,876
Total Operating Expenses		-	206,132	206,132
<b>Operating Income (Loss)</b>		-	(206,132)	(206,132)
<b>Operating Income (Expenses)</b>				
Interest expense		-	(7,765)	(7,765)
Total Other Income Expenses)		-	(7,765)	(7,765)
<b>Other Income (Loss) Before Taxes</b>		-	(213,897)	(213,897)
<b>Operating Comprehensive Income (Loss)</b>			(345)	(345)
<b>Income Tax</b>		-	-	-
<b>Net Income (Loss)</b>				
Continuing Operations		-	(214,242)	(214,242)
Discounted Operations		(26,389)	-	(26,389)
<b>Net Income (Loss) Per Share</b>				
Continuing Operations	\$	-	\$ (21.42)	\$ (0.14)
Discontinued Operations	\$	(0.02)	\$ -	\$ (0.04)
<b>Weighted Average Number of Shares Outstanding</b>		1,569,552	10,000	1,569,552

## Item 2. Management's Discussion and Analysis or Plan of Operation.

### SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

In addition to historical information, the following discussion contains statements that plan for or anticipate the future. These forward-looking statements include statements about our future business plans and strategies, future actions, future performance, costs and expenses, interest rates, outcome of contingencies, financial condition, results of operations, liquidity, objectives of management, and other such matters, as well as certain projections and business trends, and most other statements that are not historical in nature, that are "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as that information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. Forward-looking information may be included in this Quarterly Report or may be incorporated by reference from other documents we have filed with the Securities and Exchange Commission (the "SEC"). You can identify these forward-looking statements by the use of words like "may," "will," "could," "should," "project," "believe," "anticipate," "expect," "estimate," "forecast," "potential," "intend," "continue" and variations of these words or comparable words. Forward-looking statements do not guarantee future performance, and because forward-looking statements involve future risks and uncertainties, there are factors that could cause actual results to differ materially from those expressed or implied. These risks and uncertainties include, without limitation, those detailed from time to time in our filings with the SEC.

We have based the forward-looking statements relating to our operations on management's current beliefs, expectations, estimates, and projections about us and the industry in which we operate, as well as assumptions and information currently available to us. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that we cannot predict. In particular, we have based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Because forward-looking statements involve future risks and uncertainties, there are several important factors that could cause actual results to differ materially from historical results and percentages and from the results anticipated by these forward-looking statements. For example, a few of the uncertainties that could affect the accuracy of forward-looking statements include, without limitation:

- 1 Whether or not our products are accepted by the marketplace and the pace of any such acceptance,
- 1 our ability to attract customers for our new business,
- 1 improvements in the technologies of our competitors,
- 1 changing economic conditions, and
- 1 other factors, some of which will be outside of our control.

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



## **FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

We experienced a net loss of \$530,666 for continuing operations for the quarter ended June 30, 2006, an increase of \$267,848, or 102%, from the loss of \$262,818 reported for the first quarter of 2006, making a total loss for continuing operations for the year to date of \$793,484. This is further discussed below, but is a reflection of the transition and changeover between the previous business of Tribeworks and the new Atlas business being developed.

On March 30, 2005, as previously reported in our Current Report on Form 8-K filed with the SEC on March 31, 2005, which report is incorporated herein by reference, we announced that we had determined that our business based on the iSheil® technology was insufficient to sustain a viable public company, and we decided to pursue a plan of reorganization to attempt to increase our scope and profitability. The plan of reorganization that our board approved included the transfer of most assets and liabilities (including the accrued salary obligations described in NOTE H to the accompanying consolidated financial statements) to our operating subsidiary, TDC and the possible sale of TDC to certain current and former members of management or other staff.

On January 20, 2006, as previously reported on Form 8-K filed with the SEC on January 26, 2006, which report is incorporated herein by reference, Tribeworks acquired TakeCareofIT Holdings Limited, a Malta corporation, and its subsidiaries, who have been collectively doing business as Atlas Technology Group (collectively, "Atlas"). Atlas was established in September 2004 to provide external Information Technology (IT) application support services for organizations with large IT functions.

As our old business continues to be wound down and we continue to develop the Atlas business, there will be a period of some months when there will be little or no revenue coming into the Company. We cannot predict when substantial revenue and breakeven will occur, but during the third quarter we expect that the new Atlas business will begin generating modest amounts of revenue.

In the review below and in the accompanying income statement we have separated the revenue and expenses between the old Tribeworks business and the new Atlas business.

### **Revenues of discontinued operations**

Total revenues for the discontinued business were \$61,885 for the three months ended June 30, 2006, a decrease of 66% compared to total revenues of \$182,501 for this business for the three months ended June 30, 2005. For the six months ended June 30, 2006 total discontinued revenues were \$122,370 compared to \$401,614 for the first six months of 2005. All of this revenue relates to the old Tribeworks business and reflects that this business is being run down. The revenue includes sales of some iShell products (and this business has now been sold to a former staff member) with the majority of the revenue coming from the finalization of the remaining contracts for custom built products.

### **Cost of Sales of discontinued operations**

Cost of sales includes royalties paid to third parties for licensed technology, costs associated with order fulfillment, credit card fees, web hosting fees, and costs associated with consulting services, including salaries, subcontractor fees, and out-of-pocket expenses. All of the final costs of completing these contracts have been accounted for in the cost of sales and hence the result for the three months ended June 30, 2006 is a negative gross margin of \$3,844, as all final costs have been taken into account. The gross margin for the six months ended June 30, 2006 for the discontinued business was \$34,836 compared to \$272,045 for the same period last year. However, calculation of gross margins is irrelevant as the old Tribeworks business is wound down.

### **Operating Expenses**

The operating expenses associated with the old Tribeworks business amounted to \$8,711 for the June 30, 2006 quarter and comprised mainly the final rent payments of our former office space, which has now been transferred to a former staff member with the iShell business. For the six months ended June 30, 2006 there was also some product development expenditure related to the final contracts. As at June 30, 2006 the old Tribeworks business is now effectively closed and has subsequently been sold to its former management and therefore comparisons to former periods would be irrelevant.

With the development of the new Atlas business, the main operating cost is IT software development costs, which are now being incurred within Atlas with a second quarter cost of \$270,117 compared with the first quarter cost of \$137,455. The increase in the second quarter is due to a reduced amount of software development expenditure being capitalized: \$64,951 in the quarter ended June 30, 2006 as compared to \$155,907 of software development expenditure capitalized in the quarter ended March 31, 2006. The combined cost (capitalized and expensed) of software development in the quarter ended June 30, 2006 was \$335,068 compared to \$265,886 in the quarter ended March 31, 2006. The Company is now getting to the end of the software development phase and is now beginning the testing phase. This policy has been a change for 2006 and is consistent with the accounting policy of Atlas and the amounts purchased and capitalized are shown in Note C.

Sales and marketing expenses consist primarily of compensation and benefits and other public relations and marketing costs. Sales and marketing expenses were \$32,292 for the quarter ended June 30, 2006 (\$12,232 in the first quarter of 2006) and related totally to the new Atlas business. The comparatives for 2005 can be seen in the proforma operations statement set out in Note L.

General and administrative expenses consist primarily of compensation and benefits, fees for professional services, and overhead. General and administrative expenses for the Atlas business stream were \$227,297 for the quarter ended June 30, 2006 compared with \$149,074 for the quarter ended March 31, 2006. This increase is primarily due to an increase in outside services, including accounting fees and legal fees, but also included the combined salaries to the three executive directors of \$60,000, who were not fully compensated in the quarter ended March 31, 2006.

### **Interest and Other Expense**

Interest expense was \$179 for the quarter ended June 30, 2006. Net interest was an income item in the first quarter of 2006 and therefore the six months ended June 30, 2006 interest shows a net income of \$2,288.

### **Provision for Income Taxes**

We recorded no tax provision for the quarter ended June, but had tax deducted from an interest receipt that was netted against interest expense. In the quarter ended June 30, 2006 we had a tax payment of \$1,201 which related to California taxes. We have net operating loss carryforwards from prior year losses.

### **Net Loss**

The net loss for the quarter ended June 30, 2006 was \$543,221 (\$530,666 for continuing operations and \$12,555 for discontinued operations) compared to \$293,015 for the quarter ended March 31, 2006 (a loss for the six months to June \$836,236) compared to a net loss of \$69,998 for the quarter ended June 30, 2005 and \$26,389 for the six months ended June 30, 2005 (both now relate to discontinued operations). As can be seen from the analysis in the consolidated income statement, \$530,666 of the loss for the three months ended June 30, 2006 (\$793,459 for the six months ended June 30, 2006) relates to the new Atlas business and this reflects the costs of the transition from our prior business divisions of Tribeworks to the new Atlas business.

### **Liquidity and Capital Resources**

At June 30, 2006, we had cash of \$1,058,475 compared to \$51,229 at June 30, 2005 and \$177,799 at December 31, 2005. The increase is primarily due to a private placement of 1,140,000 new shares of Common Stock at \$1.25 per share which took place in June 2006. The funds from this private placement will be used to repay the creditors owing at that date and to meet our working capital requirements over the coming months.

Based on our projected cash flow requirements, taking into account our cash balance, anticipated revenues from our ongoing business and some very modest levels of revenue from Atlas starting in the third quarter, and projected expenditures, we believe we will be required to raise additional equity financing within the next 12 months and our Board of Directors is addressing this need for additional capital.

Cash used by operating activities was \$463,204 for the six months ended June 30, 2006, compared to \$198,925 for the quarter ended March 31, 2006 and compared to \$83,509 for the six months ended June 30, 2005. The increase is the result of our increased development costs associated with the Atlas business.

Cash used in investing activities for the six months ended June 30, 2006 was \$343,465 compared to \$162,110 for the quarter ended March 31, 2006 and \$378,739 for the six months ended June 30, 2005. The cash invested in the six

months ended June 30, 2006 has been for the development of new software and purchase of computers and software for the new Atlas business. The \$378,739 of advances made in the six months ended June 30, 2005 were made to Atlas for the purchase of computers and the development of software. During the quarter ended June 30, 2006 additional servers were purchased to further strengthen and upgrade our data center in preparation for going into the production phase of the new business and this should give enough capacity through the testing phase and into full operations beginning in 2007.

Cash provided by financing activities for the six months ended June 30, 2006 was \$1,672,535, consisting primarily of new equity raised, being the balance of a private placement started prior to December 31, 2005 and a further private placement of 1,140,000 new shares of Common Stock at \$1.25 per share made in June 2006.

We do not expect to be profitable during 2006, but some modest revenue is expected to be generated during the third quarter, but not sufficient to reach a breakeven point. Our Board of Directors will be seeking additional capital to finance our operations in the form of additional equity or debt, but there is no assurance that this additional financing will be available to us or, if it is available, that it will be on commercially reasonable terms. We do not expect to devote substantial capital resources to hiring additional personnel if more funds do not become available to us. In addition, the inability to obtain sufficient funds from operations and external sources will have a material adverse effect on our business, results of operations, and financial condition.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### **Related Party Transactions**

As of June 30, 2006, we have not entered into any contractual arrangements with related parties other than as shown in Note I of the consolidated financial statements above. There is not any other currently proposed transaction, or series of the same, to which we are a party, in which the amount involved exceeds \$60,000 and in which, to our knowledge, any director, executive officer, nominee, 5% stockholder or any member of the immediate family of any of the foregoing persons have or will have a direct or indirect material interest.



### **Item 3. Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation required by Rule 13a-15(b) promulgated under the Exchange Act, that as of June 30, 2006, our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) are effective in alerting them on a timely basis to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic filings under the Exchange Act, and include controls and procedures designed to ensure that information required to be disclosed by us in such periodic filings is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosure. Since December 31, 2005, there have not been any significant changes in our disclosure controls and procedures or in other factors that could significantly affect such controls.

There were no significant changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) promulgated under the Exchange Act that occurred during the fiscal quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

There are no legal proceedings pending against Company and the only threat of legal proceedings is disclosed in Note I above.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

During the quarter ended June 30, 2006, we sold an aggregate of 1,140,000 shares of our common stock to various accredited investors pursuant to a private placement at a price of \$1.25 per share, for an aggregate offering price of \$1,425,000 before fees and costs. This offering was exempt from registration pursuant to Rule 506 promulgated under the Securities Act. Each of the investors executed a subscription agreement and represented in writing that it was an "accredited investor," as defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Submission of Matters to a Vote of Security Holders.**

None.

### **Item 5. Other Information.**

None.

**Item 6. Exhibits.**

(a) The following exhibits are included in this report or incorporated by reference into this report:

**EXHIBIT**

**NUMBER DESCRIPTION OF EXHIBITS**

- |      |   |
|------|---|
| 10.1 | Asset and Liability Assignment and Indemnification Agreement, dated March 29, 2005 (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed with the SEC on March 31, 2005). |
| 10.2 | Share Transfer Agreement dated January 19, 2006 (incorporated by reference to Exhibit 2.01 to the Registrant's Current Report on Form 8-K filed with the SEC on January 26, 2006).                                  |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a).  |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a).  |
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |

**SIGNATURES**

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

TRIBEWORKS, INC.,  
a Delaware corporation

Date: March 30, 2007

By: /s/ Peter B. Jacobson

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Peter B. Jacobson  
Chief Executive Officer

Date: March 30, 2007

By: /s/ B. S. P. Marra

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B. S. P. Marra  
Chief Financial Officer

**Index to Exhibits**

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