TRIBEWORKS INC
Form 10QSB
August 16, 2004

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

FORM 10-QSB

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from N/A to N/A

Commission File Number: 000-28675

Tribeworks, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware	94-3370795
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
988 Market Street, San Francisco, CA	94102
(Address of principal executive offices)	(Zip Code)

(415) 674-5555

(Issuer's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

The number of shares outstanding of registrant's $0.0004 par value common stock, as of the close of business on August 16, 2004: 4,708,657 shares.

Transitional Small Business Disclosure Format: ___ Yes X No ___

TRIBEWORKS, INC.
SECOND QUARTER 2004 REPORT ON FORM 10-QSB
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

TRIBEWORKS, INC.
UNAUDITED CONSOLIDATED BALANCE SHEET
JUNE 30, 2004

Current Assets	
Cash	$ 27,025
Accounts receivable, net of allowance for doubtful accounts of approximately $4,000	26,992
Costs and estimated earnings in excess of billings on uncompleted contracts	17,897
Prepaid expenses	41,287
TOTAL CURRENT ASSETS	113,201
Other Assets	
Equipment, net of accumulated depreciation of $49,985	2,307
TOTAL ASSETS	$ 115,508

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Accounts payable	$ 272,688
Accrued expenses	46,666
Due to shareholders	6,232
Note payable	83,701
Deferred revenue	84,325
TOTAL CURRENT LIABILITIES	493,612
Stockholders' Deficit	
Preferred stock: 10,000,000 shares authorized, none issued	-
Common stock: $.0004 par value, 200,000,000 shares authorized, 4,708,657 shares issued and outstanding	1,883
Additional paid-in capital	3,035,725
Unearned compensation	(481)
Accumulated deficit	(3,415,231)
TOTAL STOCKHOLDERS' DEFICIT	(378,104)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 115,508

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

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

	Three Months Ended June 30,		Six Months E
	2004	2003	2004

REVENUES	$ 219,848	$ 264,519	$ 507,653
COST OF SALES	91,290	84,269	207,290
GROSS PROFIT	128,558	180,250	300,363
OPERATING EXPENSES			
Product support	11,573	10,924	20,707
Product development	30,383	37,443	66,024
Sales and marketing	46,635	67,534	95,848
General and administrative	92,337	73,445	210,290
	180,928	189,346	392,869
INCOME (LOSS) FROM OPERATIONS	(52,370)	(9,096)	(92,506)
OTHER INCOME (EXPENSE)			
Interest expense	(202)	(2,277)	(741)
INCOME (LOSS) BEFORE INCOME TAXES	(52,572)	(11,373)	(93,247)
INCOME TAXES	-	-	-
NET INCOME (LOSS)	$ (52,572)	$ (11,373)	(93,247) $
EARNINGS (LOSS) PER COMMON SHARE			
Basic	$ (0.01)	$ -	$ (0.02)
Diluted	$ (0.01)	$ -	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	4,708,657	4,658,657	4,708,657

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,

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (93,247)	$ 14,920
Adjustments:		
Depreciation	616	3,860
Amortization of unearned compensation	2,888	4,419
Changes in:		
Accounts receivable	139,426	(18,876)
Costs and estimated earnings in excess of billings on uncompleted contracts	5,746	
Prepaid expenses	16,587	1,597
Accounts payable	23,818	(9,867)
Accrued expenses	28,313	23,107
Deferred revenue and billings in excess of costs and estimated earnings on uncompleted contracts	(136,894)	(8,658)
Total adjustments	80,500	(4,418)
Net cash provided (used) by operating activities	(12,747)	10,502
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	-	(2,197)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment of note payable	-	(30,000)
NET DECREASE IN CASH	(12,747)	(21,695)
CASH, BEGINNING OF PERIOD	39,772	143,153
CASH, END OF PERIOD	$ 27,025	$ 121,458

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

TRIBEWORKS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE A - PRINCIPLES OF PRESENTATION

The accompanying unaudited financial statements 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 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, 2004, and its results of operations and cash flows for the three and six months ended June 30, 2004 and 2003 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, 2004. 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, 2003.

NOTE B - NATURE OF BUSINESS AND ORGANIZATION

On August 20, 1998, the Company began its business activities. The Company's business activity results from a technology that provides tools for creating and delivering multimedia applications. Internet media developers use the technology for creation and deployment of electronic content that utilizes interactive features combining graphics, video, and audio content. The Company exploits its software primarily through the licensing of its software tools to multimedia and software developers and through building customized licensed versions that include professional engineering to meet contract requirements.

NOTE 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, Tribeworks Development Corporation and Tribeworks Japan Limited. 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 contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined.

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

ACCOUNTS RECEIVABLE

Accounts receivable are reported at the amount management expects to collect on balances outstanding at period-end. The amount of the accounting loss that the Company is at risk for these unsecured accounts receivable is limited to their carrying value, which is $26,992 at June 30, 2004. The Company provides an allowance for doubtful accounts and records bad debts based on a periodic review of accounts receivable and the collectibility of each account.

EQUIPMENT

Equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the assets.

TRIBEWORKS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004

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

TECHNOLOGY LICENSE

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

REVENUE RECOGNITION

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

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

COMPENSATED ABSENCES

The Company accrues vacation pay for all full-time employees.

SOFTWARE DEVELOPMENT COSTS

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

STOCK-BASED AWARDS

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

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

TRIBEWORKS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004

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

	Three Months Ended June 30, 2004	2003	Six Mont 2004
Net income (loss), as reported	$ (52,572)	$ (11,373)	$ (93,24
Add: Stock-based compensation expense included in net income or loss, no tax effect	1,444	1,524	2,88
Deduct: Total stock-based compensation expense determined under fair value method for all awards, no tax effect	(2,044)	(5,064)	(3,48
Pro forma net income (loss)	$ (53,172)	$ (14,913)	$ (93,84
Net income (loss) per share, basic and diluted:			
As reported	$ (0.01)	$ (0.00)	$ (0.0
Pro forma	$ (0.01)	$ (0.00)	$ (0.0

The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield; expected volatility of 25%; weighted-average risk-free interest rate of 3.40%; and weighted-average expected option life of three years. No options were granted during the second quarter of 2004.

FOREIGN CURRENCY TRANSLATION

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

NET EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per share ("EPS") is computed based on net income (loss) divided by the weighted average number of common shares outstanding. Diluted EPS is computed based on net income (loss) divided by the weighted average number of common shares and potential common share equivalents outstanding. Potential common share equivalents are those related to stock options and warrants and the note payable. However, such potential common share equivalents would have no effect on diluted earnings per share for the six months ended June 30, 2004 and 2003. Therefore, basic and diluted earnings per share are the same for the three and six months ended June 30, 2004 and 2003.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2003 financial statements in order to conform to the 2004 financial statement presentation.

TRIBEWORKS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004

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

At June 30, 2004, costs and estimated earnings in excess of billings on uncompleted contracts, which was comprised of one job in progress, consisted of $9,401 of costs and $8,496 of estimated earnings, less billings of $0.

NOTE E - NOTE PAYABLE

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

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

NOTE F - GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. However, although the

Company reported net income during 2003 and 2002, the Company reported a net loss for the three and six months ended June 30, 2004 and had a working capital deficiency of $380,411 and an equity deficiency of $378,104 at June 30, 2004. The Company is also in default on its note payable and has deferred payment of certain accounts payable and accrued expenses. Given these results, additional capital or improved operations will be needed to sustain the Company's operations.

Management's plans in this regard include additional marketing of its product line with special emphasis on custom development services and technology licensing opportunities in the U.S. and Japan. The Company also is considering to seek equity financing and other possible corporate transactions during 2004.

In view of the matters described, there is substantial doubt about the Company's ability to continue as a going concern. The recoverability of the recorded assets and satisfaction of the liabilities reflected in the accompanying balance sheet is dependent upon continued operation of the Company, which is in turn dependent upon the Company's ability to meet its cash flow requirements on a continuing basis and to succeed in its future operations. There can be no assurance that management will be successful in implementing its plans. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE G - REVERSE STOCK SPLIT

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD LOOKING STATEMENTS

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

- whether or not our products are accepted by the marketplace and the pace of any such acceptance,

- our ability to continue to grow our Tools and Enterprise businesses,

- improvements in the technologies of our competitors,

- changing economic conditions, and

- other factors, some of which will be outside of our control.

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

FINANCIAL CONDITION

We experienced a net loss of $52,572 for the quarter ended June 30, 2004. This loss is primarily attributable to a decrease in revenues in both our Enterprise and Tools business, and increased administrative costs from efforts surrounding our recent annual meeting and reverse stock split. Consequently, in order to strengthen our financial stability, we are increasing the sales activities of certain personnel, and we have undertaken cost-cutting measures. Such cost-cutting measures include closing our Tribeworks Japan subsidiary, which we expect to be completed during the third quarter of 2004, reducing our headcount, and reducing discretionary spending. The costs to close the Tribeworks Japan subsidiary are not material and thus we have not accrued any additional expenses for the closure. There is a risk these cost-cutting measures could have a negative impact on revenues. We are also implementing a new executive compensation plan that we expect will have an adverse impact on profitability.

At this time we have deferred plans to raise funds through equity financing, primarily so we can refocus our energy on the development of new mobile Enterprise business opportunities. We still plan to raise funds through equity financing in the future. Our financial success continues to rely on key contracts, the future existence of which is not assured. For instance, our business with a single customer accounted for 24% of our total revenues for this quarter.

We sell our professional software and generate revenues through two main distribution channels: the graphics software tools business and the enterprise application development business. Tools customers, usually graphics industry professionals, license our iShell(R) branded multimedia application authoring tools, iShell 4 or iShell Mobile, by purchasing the software via our online store or via telephone with one of our sales representatives. Tools customers either buy our software with a permanent license or pay an annual subscription fee that includes a license to use our software and free software upgrades. Kinoma Media Album (KMA), our first consumer multimedia tool, is sold through three online stores: Kinoma.com, Handango.com and PalmGear.com.

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

Beginning in 2003, we partnered with Kinoma, Inc. ("Kinoma") to create new products for the mobile software market, specifically targeting Palm OS devices. Kinoma makes Kinoma Player 2, which is a high-resolution, interactive movie player for handhelds running the Palm OS. To date we have developed two products in partnership with Kinoma that create Kinoma Player 2 content, iShell Mobile, an iShell-based application development tool, launched in October 2003, and Kinoma Media Album, a consumer multimedia management tool, launched in May of 2004. Kinoma receives a per unit royalty on sales of iShell Mobile and Kinoma Media Album. In addition to building these two products together, we have utilized Kinoma as a subcontractor on Enterprise projects.

In our Enterprise business, most of our customers are large corporations that require development of custom multimedia tools or complex multimedia applications. Enterprise customers usually pay for consulting services performed by Tribeworks' employees and subcontractors. Certain Enterprise customers also license our software, usually for a fixed fee or on a per unit basis, although we recorded no Enterprise licensing revenues during this quarter. As evidenced by results for this quarter, we generally anticipate Enterprise business growth, particularly Enterprise consulting revenues, to be less predictable and "bumpier" than our Tools business revenues in the foreseeable future, and this could impact whether or not we continue to be profitable on a quarter-to-quarter basis. The primary reason is that our Enterprise business has a smaller number of customers. The addition of new mobile Enterprise solutions has expanded the potential customer base and could decrease volatility going forward. We expect to continue to underwrite the cost of software research and development with money received from Enterprise customers.

While we strive to operate our business efficiently and profitably, we cannot make assurances that every quarter will be profitable, and we may sacrifice near-term results for long-term results.

RESULTS OF OPERATIONS

REVENUES

Total revenues were $219,848 for the three months ended June 30, 2004, a decrease of 17% compared to total revenues of $264,519 for the three months ended June 30, 2003. The Tools Business, which primarily includes sales of commercial or educational use of our iShell 4, iShell Mobile, and Kinoma Media Album software, and sales of books and third party plug-ins, decreased by 20% to $71,909 for the second quarter of 2004, compared to $89,595 for the second quarter of 2003. The Enterprise business decreased in the second quarter of 2004 by 15% to $147,939, compared with $174,924 for the second quarter of 2003. Enterprise revenues for the second quarter of 2004 consisted of $147,939 in consulting revenues and $0 in licensing revenues, compared with $162,256 in consulting revenues and $12,668 in licensing revenues for the second quarter of 2003. The decrease in Enterprise consulting revenues is primarily attributable to an approximately 50% decrease in revenues associated with our ongoing contract with Pioneer Corporation for development of software products that allow users to create and manage content for digital signs. We expect that revenues associated with Pioneer Corporation will increase in future quarters. International revenues, which consist of sales to foreign customers, represented 50% of revenues for the second quarter of 2004, compared to 58% of revenues for the second quarter of 2003. Revenues from Japanese customers decreased to 29% of total revenues for the second quarter of 2004, down from 47% for the second quarter of 2003.

Revenues were $507,653 for the six months ended June 30, 2004, a decrease of 19% from revenues of $628,961 for the six months ended June 30, 2003. The Tools Business decreased in the first six months of 2004 by 10% to $168,667, compared with $188,355 for the first six months of 2003. The Enterprise business decreased in the first six months of 2004 by 23% to $338,986, compared with $440,606 for 2003.

COST OF SALES

Cost of sales includes royalties paid to third parties for licensed technology, costs associated with order fulfillment, credit card fees, web hosting fees, and costs associated with consulting services, including salaries, subcontractor fees, and out-of-pocket expenses. Cost of sales was $91,290 for the three months ended June 30, 2004, up from $84,269 for the three months ended June 30, 2003. Gross margins decreased on a percentage basis to 58% for the second quarter of 2004 from 68% for the second quarter of 2003, primarily caused by higher relative subcontractor costs on certain Enterprise projects during the quarter.

Cost of sales was $207,290 for the six months ended June 30, 2004, down from $219,205 for the six months ended June 30, 2003. Gross margins decreased on a percentage basis from 65% for the first six months of 2003 to 59% for the first six months of 2004.

OPERATING EXPENSES

Product support expenses consist mainly of compensation, benefits and consulting fees paid to product support personnel. Product support expenses were $11,573 and $10,924 for the quarters ended June 30, 2004 and 2003, respectively. As a percentage of Tools sales, product support expenses were 16% and 12% for the second quarters of 2004 and 2003, respectively. This increase is primarily attributable to reduced Tools revenues and relatively fixed product support expenses. Product support expenses were $20,707 and $22,525 for the six months ended June 30, 2004 and June 30, 2003, respectively.

Product development expenses consist primarily of compensation and benefits to support product development. Product development expenses were $30,383 and $37,443 for the quarters ended June 30, 2004 and 2003, respectively. Product development expenses were $66,024 and $65,388 for the six months ended June 30, 2004 and June 30, 2003, respectively.

Sales and marketing expenses consist primarily of compensation and benefits, advertising, mail order costs, trade show expenses, and other public relations and marketing costs. Sales and marketing expenses were $46,635 and $67,534 for the quarters ended June 30, 2004 and 2003, respectively. Most of this decrease is based on less expense for developing our website, which we substantially redesigned during the first and second quarters of 2003, and decreased wages for certain sales personnel, whose wages are tethered to sales performance. Sales and marketing expenses were $95,848 and $125,408 for the six months ended June 30, 2004 and June 30, 2003, respectively.

General and administrative expenses consist primarily of compensation and benefits, fees for professional services, and overhead. General and administrative expenses were $92,337 and $73,445 for the quarters ended June 30, 2004 and 2003, respectively. This increase is primarily due to the increased cost of doing business as a public company as a result of new securities regulations, including increased accounting and legal fees, and also due to costs associated with our recent annual meeting and reverse stock split. General and administrative expenses were $210,290 and $176,550 for the six months ended June 30, 2004 and June 30, 2003, respectively.

OTHER INCOME (EXPENSE)

Other expense was $202 for the quarter ended June 30, 2004, consisting of $202 of interest expense, compared to other expense of $2,277 for the quarter ended June 30, 2003, consisting of $2,277 of interest expense. Other expense was $741 for the six months ended June 30, 2004, consisting of $741 of interest expense, compared to other expense of $4,965 for the six months ended June 30, 2003, consisting of $4,965 of interest expense.

PROVISION FOR INCOME TAXES

We recorded no tax provision for the quarter ended June 30, 2004 and no tax provision for the quarter ended June 30, 2003. We recorded no tax provision for the six months ended June 30, 2004 and no tax provision for the six months ended June 30, 2003.

NET INCOME (LOSS)

Net loss was $52,572 for the quarter ended June 30, 2004, compared to a net loss of $11,373 for the quarter ended June 30, 2003. Net loss was $93,247 for the six months ended June 30, 2004, compared to a net profit of $14,920 for the six months ended June 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2004, we had cash of $27,025 compared to $121,458 at June 30, 2003.

Our capital requirements have been reduced significantly from previous quarters based on cost reductions. Since inception, the Company has financed its operations through issuance of stock and through revenues from the Tools and Enterprise businesses. Through June 30, 2004, the Company had raised $2,672,656 from the sale of stock. At June 30, 2004, the principal source of liquidity for the Company was $27,025 of cash.

Cash used by operating activities was $33,385 for the quarter ended June 30, 2004 and cash provided by operating activities was $95,775 for the quarter ended June 30, 2003. Cash used by operating activities was $12,747 for the six months ended June 30, 2004 and cash provided by operating activities was $10,502 for the six months ended June 30, 2003.

Cash used in investing activities for the quarters ended June 30, 2004 and 2003 was $0 and $0, respectively. Cash used in investing activities for the six months ended June 30, 2004 and 2003 was $0 and $2,197, respectively.

Cash used in financing activities for the quarters ended June 30, 2004 and 2003 was $0 and $30,000, respectively. Cash used in financing activities for the six months ended June 30, 2004 and 2003 was $0 and $30,000, respectively.

We cannot make assurances that we will be profitable and that should we seek investment funds, that such funds will be available to us or available on commercially reasonable terms. We do not expect to devote substantial capital resources to additional hiring of 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.

ITEM 3. CONTROLS AND PROCEDURES

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

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

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

We made no sales of the Company's common stock during the quarter ended June 30, 2004.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

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

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
2.1	Agreement of Merger between Tribeworks, Inc., a California corporation, and Tribeworks Acquisition Corporation, dated November 2, 1999 (Incorporated by reference to Exhibit 2.1 to the Registrant's Form 10-SB/A filed July 10, 2000).
3.1	Certificate of Incorporation of Tribeworks, Inc., a Delaware corporation (Incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-SB/A filed July 10, 2000).
3.2	Bylaws of Tribeworks, Inc., a Delaware corporation (Incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-SB/A filed July 10, 2000).
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.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.

(b) The following reports on Form 8-K were filed during the quarter ended June 30, 2004:

Current Report on Form 8-K (Items 5 and 7) filed with the Securities and Exchange Commission on June 3, 2004.

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: August 16, 2004

/s/ DUNCAN J. KENNEDY
____
Duncan J. Kennedy,
President and Chief Executive Officer

/s/ ROBERT C. DAVIDORF
____
Robert C. Davidorf,
Chief Financial Officer