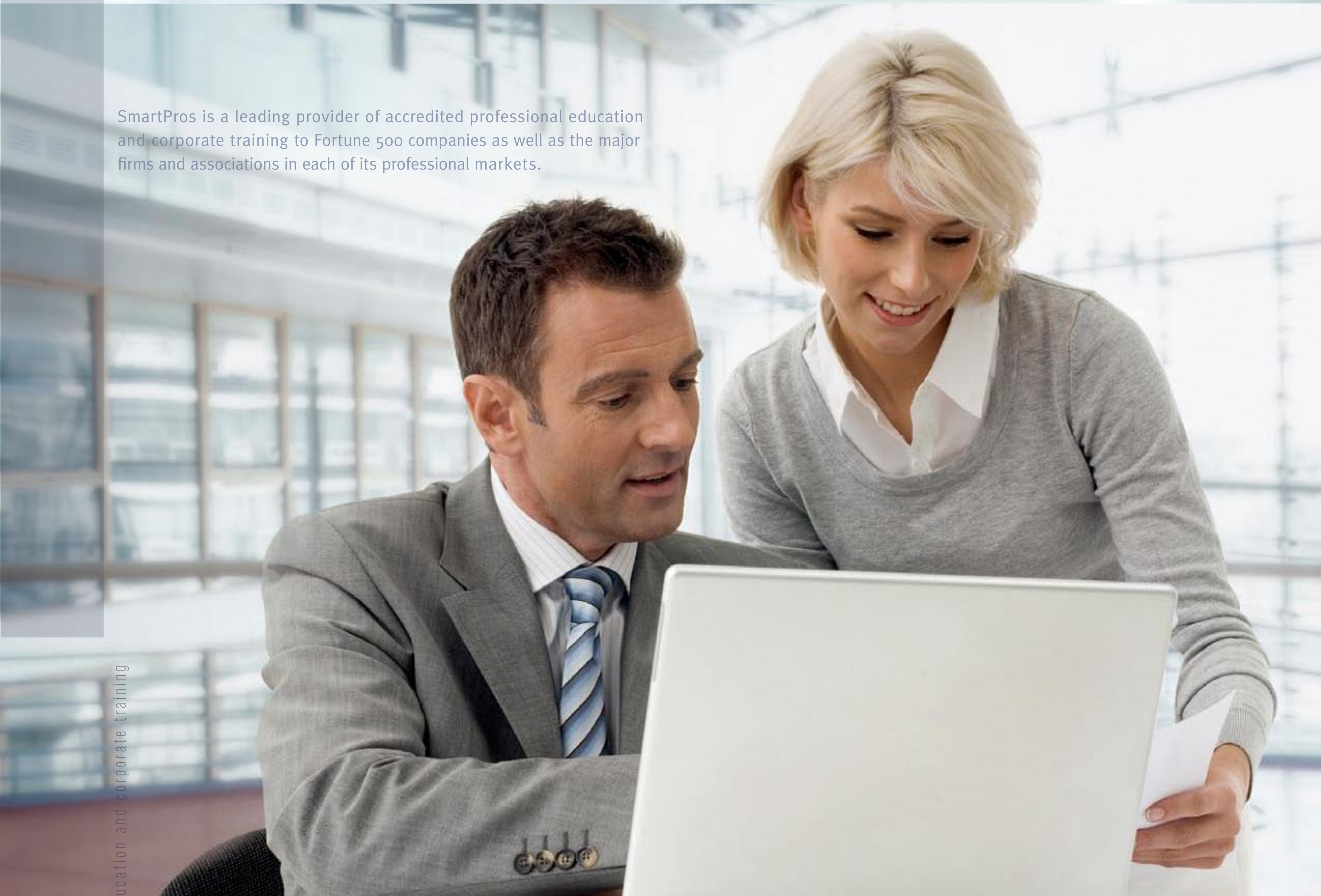
2008

SMARTPROS LTD. | 2008 Annual Report to Shareholders

SmartPros is a leading provider of accredited professional education and corporate training to Fortune 500 companies as well as the major firms and associations in each of its professional markets.



SmartPros Ltd.

Accredited professional education and corporate training

- SmartPros Accounting & Finance
- SmartPros Financial Services
- SmartPros Engineering
- SmartPros Legal & Ethics
- SmartIT Information Technology
- Skye Multimedia
- SmartPros Interactive
- SmartPros Marketing Services

OUR COMBINED SUBSCRIPTION LIBRARIES FEATURE MORE THAN 1,000 COURSE TITLES covering subjects in the accounting, financial services, legal, engineering and information technology industries. SmartPros' proprietary Professional Education Center (PEC) offers enterprise distribution and administration of education content and information. In addition, SmartPros produces a popular news and information portal for accounting and finance professionals serving more than one million ads and distributing more than 200,000 subscriber email newsletters each month. SmartPros' network of sites averages more than 900,000 monthly visits, serving a user base of 1,000,000+ members.

SMARTPROS Operating Units:

SmartPros® Accounting & Finance

SmartPros Professional Education Center (PEC)

SmartPros Advantage (SPA)

Financial Mamagement Network (FMN)

CPA Report (CPAR)

CPA Report Government/ Not-for-Profit Edition (CPAR Gov/NFP)

Loscalzo Associates

SmartPros® Financial Services

SmartPros FinancialCampus

Selbst Group Financial Services and Sales Training

Online Banking Courseware

SmartPros® Engineering

General Engineering: Business Management

Interactive PE Exam Prep for Civil Engineers

Project Management for Engineers

Civil Engineering Courses

MGI Management Institute Engineering Education Catalog

APICS Certification Exam Prep

SmartPros® Legal & Ethics

Cognistar Continuing Legal Education (CLE) Library

Organization Training Solutions

Working Values Corporate Ethics and Compliance Solutions

Integrity Alignment Process

Integrity Toolkit

SmartIT™ Information Technology

WatchIT Course Catalog

WatchIT Customer Education Series

Skye Multimedia™ Custom Interactive Training Solutions

Custom Interactive Training Solutions

iReflect Training Software

SmartPros® Interactive Web Development

Media & Video, Web Development & Video Production

SmartPros® Marketing Services

Marketing Solutions for Accredited Professionals

DEAR FELLOW SHAREHOLDERS:

THE EMPLOYEES AND MANAGEMENT AT SMARTPROS ARE PROUD TO HAVE FINISHED 2008 STRONG AND LOOK FORWARD TO CARRYING THAT MOMENTUM INTO 2009. WE CONTINUE TO SHOW REVENUE GROWTH YEAR-OVER-YEAR AND OUR OPERATING PROFITS WERE AT AN ALL-TIME HIGH. LET'S TAKE A QUICK LOOK AT THE 2008 HIGHLIGHTS:

::: **Net revenues for fiscal year 2008 increased 20% to $18.26 million, up from $15.2 million in 2007.**

::: **Operating income increased 11% to $1.30 million in 2008 compared to $1.17 million in 2007.**

::: **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) increased 17.2% to $2.24 million compared to $1.92 million.**

As of December 31, 2008, the Company had approximately $6.63 million in cash and cash equivalents, $5.58 million in deferred revenue, stockholders' equity of $12.1 million, and no debt.

Since becoming a public reporting company, our annual revenues have grown from $10.2 million to $18.3 million and our annual net operating income has grown from $739,000 to $1.3 million. This growth is due, in large part, to seven acquisitions completed within this period.

Acquisitions continue to be an important part of our growth strategy. In July 2008 we acquired Loscalzo Associates P.A., a leading provider of live seminar training through state CPA societies, associations of accounting firms and directly with accounting firm clients. While we used a considerable amount of cash for the acquisition, Loscalzo proved to be immediately accretive, adding over $2 million towards our 2008 revenue figures. It should be noted that Loscalzo's revenues are seasonal in nature, increasing progressively throughout the year and peaking in the fourth quarter, while its fixed operating costs tend to be consistent throughout the year.

While we seek to achieve immediate growth from acquisitions, we continue to work on our core technology infrastructure and on developing new product lines. For 2009 we began migrating clients to our new proprietary learning management system and are launching a new Webcasting platform. We will also launch several new certificate programs in our Accounting vertical under our new Hawthorne Center of Excellence brand. Our Engineering team is gearing up for the launch of a series of courseware specific to trends in Green Engineering. All of our verticals are looking at new subscription offerings, allowing us to sell additional products and services to existing clients.

In spite of the current climate, we are cautiously optimistic about 2009. Although the general business environment is extremely challenging, we serve markets in which continuing education remains mandatory and/or advisable. While the fourth quarter of 2008 was one of the worst economic quarters in our country's history, SmartPros produced record revenues and operating profits.

I want to thank my employees and management team for their hard work and dedication which enabled SmartPros to attain record results in 2008.

I also thank our investors for their continued interest and support of SmartPros.

Sincerely,

Allen S. Greene
Chairman and Chief Executive Officer

SmartPros®
Accounting & Finance

2008

overview

:::

SmartPros is a leading provider of continuing education for accounting and finance professionals. We offer an array of "all-you-can-learn" subscriptions specifically targeted for the public, industry, governmental and not-for-profit sectors.

SmartPros® Professional Education Center (PEC)™

The SmartPros Professional Education Center is a turnkey Learning Management System designed to manage educational subscriptions, student accounts, eCommerce, and reporting needs for corporations and associations. The PEC is co-branded with client logos and color schemes, and delivered using an Application Service Provider hosted infrastructure that requires no client technology resources. Client and partner PECs are loaded with courseware designed to meet their unique organizational needs. In addition, the PEC integrates with today's most popular corporate Learning Management Systems.

SmartPros® Advantage (SPA)™

SPA is our annual CPE subscription program featuring hundreds of online skills-based courses offering a blend of self-study via multimedia and interactive text. Courses include downloadable course materials, interactive quizzes and the ability to track credits and print completion certificates. Topic areas include: Accounting and Auditing, Tax, Financial Planning, Management, Ethics, Technology and Personal Development.

Financial Management Network (FMN)™

FMN is the leading "update" subscription program for financial and accounting professionals and is a popular solution for Fortune 500 companies. It is available in an offline video group-study format and an online self-study format. FMN produces 48 new courses each year (96 online and self-study credits) focused on the hottest financial topics. FMN also publishes an online archive covering the past 18 months of courseware. Online courses feature streaming video, easy-to-follow course outlines, interactive quizzes and the ability to track credits and print completion certificates.

CPA Report (CPAR)™

CPA Report is our in-depth professional education subscription for accountants in public practice delivered via video and online. We cover the hottest topics affecting the profession and produce more than 48 new segments each year (over 96 credits). Online subscriptions include a monthly Webinar series and access to an 18-month archive of past topics. Online courses feature streaming video, easy-to-follow course outlines, interactive quizzes and the ability to track credits and print completion certificates.

CPA Report Government / Not-for-Profit Edition (CPAR Gov/NFP)™

Video and online subscriptions available.

2008 Acquisition

Loscalzo Associates Ltd.

Acquired in July 2008, Loscalzo Associates is a leading provider of live accounting- and auditing-related CPE programs, conferences and seminars. Loscalzo delivers hundreds of seminars each year through state CPA societies, associations of accounting firms and directly with accounting firm clients.

With Loscalzo offerings in the mix, SmartPros now offers a complete blended learning environment for accounting- and finance-related organizations on a national level. Loscalzo operates as a wholly owned subsidiary of SmartPros Ltd. based in Red Bank, N.J.

SmartPros expands offerings in live accounting and auditing seminars

SmartPros®
Financial Services

:::
SmartPros Financial Services features over 300 online course titles, over 16,000 accredited hours and a custom consulting and training group.

SmartPros® FinancialCampus™

SmartPros' FinancialCampus solution specializes in developing adapted financial serviced educational environments for financial services organizations and providing accredited education and training for insurance agents, stockbrokers, financial planners and related professions. FinancialCampus has delivered training to more than one million financial services professionals, and features a catalog of over 250 accredited online courses representing more than 16,000 hours of approved insurance continuing education credits across all state regulators and various professional designations in financial services. FinancialCampus also features a series of securities and insurance pre-licensing training courses.

Selbst Group Financial Services and Sales Training

SmartPros Financial Services Training is a specialized consulting division providing sales management training, product training and marketing support programs for the financial services industry. We deliver training to organizations such as national and regional brokerage firms, large and small banks, insurance companies and product providers. Our client list includes major financial services organizations from every segment of the industry, with a strong international presence. Our programs are delivered online, as well as via live presentation, group discussion, workbook materials and role-play activities.

Online Banking Courseware

SmartPros' Banking catalog features more than 50 online courses to keep banking and financial services professionals up to date on ever-evolving rules, regulations and business trends in the banking industry. Topic areas include: Compliance, Insurance, Lending, Management, Retirement, and Sales and Service. Courses feature printable course outlines, instantly graded exams, and the ability to print certificates of completion and track credits. Individual and organizational solutions are available.

SmartPros®
Engineering™

:::
SmartPros Engineering has alliances with professional and technical societies and nationally recognized organizations to develop online courses that fulfill PDH/PDU requirements.

General Engineering: Business Management

More than a dozen courses, including: Increasing Production and Profits, Managing Relationships, Recruiting Stars and Protecting Your License.

Interactive FE Review

FE Exam Review is available for a one-year subscription on CD-ROM and online (combo) or online only. FE Exam Review contains multimedia presentations on 12 sections, including the new Biology module recently added to the exam by NCEES. The FE Exam Review uses interactive quizzes, audio and animated slides to maximize your preparation to pass the exam.

Interactive PE Exam Prep for Civil Engineers

SmartPros' PE Exam Review is a state-of-the-art interactive multimedia tool that simulates the actual PE exam using demonstration problems that are comparable to the real test. The course is available online and on CD-ROM. The review course is jointly produced with the American Society of Civil Engineers and is the most popular electronic course on the market for the PE exam with 50+ hours of interactive review.

Project Management for Engineers

The first completely online interactive project management course developed exclusively for engineers by engineers. Voice and interactive graphics let you learn at your own pace. This program features 11 critical sections with over 60 individual learning modules and provides more than 35 hours of PDU/PDH credit.

Civil Engineering Courses

Courses include: Roadside Design, Wetlands, Stormwater, Windloads, and Slope Stability. Each of the first four courses has multiple modules available individually for purchase.

MGI Management Institute™ Engineering Education Catalog

MGI's distance education courseware covers a wide range of professional topics for engineers, legal administrators, manufacturing professionals, quality managers, health care professionals and others. Our products are primarily marketed through partner organizations. Since 1968, over 18 professional associations have marketed and enrolled more than 200,000 professionals in MGI courseware.

APICS CPIM Certification Program

In partnership with APICS, The Association for Operations Management, SmartPros has developed a certification program for APICS members called the "Certified in Production and Inventory Management (CPIM)" program. There are currently over 90,000 certified professionals and thousands more who have gained in-depth, specialized knowledge of production and inventory control through SmartPros' APICS CPIM programs.

SmartPros® Legal & Ethics™

:::

Serving the educational and compliance needs of today's corporate counsel, legal firms and attorneys.

The SmartPros Legal and Ethics Ltd. subsidiary now encompasses Working Values and Cognistar product lines.

Cognistar® Continuing Legal Education (CLE) Library

SmartPros has CLE solutions available in over 20 states, featuring more than 160 online CLE courses. These business-oriented legal programs cover the areas of litigation, intellectual property, corporate and securities law, taxation, labor and employment law, bankruptcy, ethics, professionalism, substance abuse, bias, and more.

Organizational Training Solutions for Legal Firms and Corporate Counsel

SmartPros offers comprehensive end-to-end solutions for corporations seeking education and training solutions. Our programs help professionals and executives stay on top of their game by providing answers to the hot issues of the day through a variety of formats designed to inspire the user. Cognistar users save time, resources and money on education and training, and have the opportunity to leverage their own in-house content.

Working Values™ Corporate Ethics and Compliance Solutions

SmartPros helps leading organizations align workplace behavior and standards to meet ethics and compliance requirements.

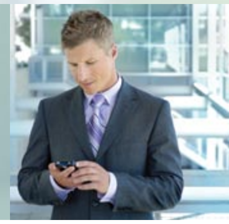
Integrity Alignment Process™

SmartPros Integrity Alignment Process aligns employee and manager actions with the organization's values and standards using integrated approaches to communication, learning and process realignment. The Process includes assessments, strategic planning, as well as award-winning training and communication programs.

Integrity Toolkit™

The Toolkit is a compliance center that includes code of business conduct certification, training and assessment tools. It features a Learning Management System that provides employees, managers, senior leaders and board members with the tools each group needs to understand the compliance requirements of the organization and what is required of them to help move the company towards those goals.

SmartIT™



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Information technology education and training for business and IT professionals.

WatchIT™ Course Catalog

WatchIT is designed for business and IT professionals looking to enhance their overall IT literacy. WatchIT features the experience of real-world experts delivered on-demand wherever and whenever a professional needs to learn. We offer over 250 rich media-based courses, and produce three to five new titles each month in online video and offline formats (podcasts, DVD, etc.). Customers also use our courseware for professional education and professional development. WatchIT helps smart people stay smart; at their pace, and at a time that's convenient.

WatchIT™ Customer Education Series

WatchIT produces education programs that enable technology companies to educate business and technology professionals about new products and services. The programs are used to demonstrate thought leadership, enable sales readiness and generate new business.

Skye Multimedia™

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Skye Multimedia is at the cutting edge of custom educational, marketing and sales training interactive design.

Custom Interactive Training Solutions

For over 10 years Skye has designed and produced interactive training and marketing applications for electronic delivery via the Internet, CD, DVD, video and kiosk.

Services include:

Product Knowledge Training
Selling Skills Courses
Application Instruction
Product Demonstrations
Presentations
2D/3D Animation

iReflect™ Training Software

iReflect* empowers corporations and organizations to cost-effectively and efficiently train and improve employee presentation and interaction without limit to geographic areas. Team members become effective and confident at delivering a company's core messaging by recording, watching and assessing their own physical presentations and interactions with others. Incorporating advanced instructional design principles and utilizing audio and video recording technology in an intuitive interface, iReflect allows companies to quickly build training and practice modules that increase knowledge and awareness across an entire organization. iReflect is available for licensing in both Internet and intranet platforms.

** iReflect LLC is jointly owned by Skye Multimedia Ltd. and Education and Training Systems International Inc.*

SmartPros® Interactive™

:::
SmartPros Interactive features a full-service in-house video studio with editing and duplication services.

Media & Video, Web Development & Video Production

Our in-house custom development team works with clients to convert their existing education or training content – or to produce custom content from scratch – for delivery online or via interactive CD-ROM or DVD. We feature a full-service in-house video studio with editing and duplication services.

Media services include:

Web Site Design & Development
Intranet & Extranet Solutions
Rich Media Design
Streaming Media Conversion
CD-ROM Development
eBusiness Consulting
Custom e-Learning Development

Video services include:

Pre-Production & Casting
Film & Video Production
Post Production
Duplication & Distribution
Webcasting
Sound Stage Rental
Full-Frame Digital Conversion
VHS & Audio Cassette Duplication
CD / CD-ROM / DVD Duplication
Transfer Services
Packaging & Fulfillment

SmartPros® Marketing Services™

:::
SmartPros Marketing Services is a full-service agency focused on programs that reach accredited professionals.

Marketing Solutions For Accredited Professionals

This group is responsible for content management, advertising and lead-generation programs offered through the company's popular news and information portal.

In addition, we produce private-branded content solutions for our clients in the areas of industry-specific news headlines and newsletters. SmartPros marketing programs currently reach 300,000+ accredited professionals with one million targeted advertising impressions each month. All of our programs are available online and in print.

Services include:

Advertising & Lead Generation
Custom Newsletter Programs
Contests & Surveys
Email Promotions & Direct Mail
Media Relations & Tradeshows
Collateral Development

SmartPros 2009 initiatives:

SmartPros Professional Education Center (PEC)™ 2.0

SmartPros has been working diligently on a new platform and capabilities for its core Learning Management System (LMS). The new system offers end-users and clients more features and control, including multiple languages. The new system increases efficiencies in producing and publishing content across all of our existing (and future) vertical markets.

SmartPros Webcasting Platform

Using the same general interface as the SmartPros e-Learning Player, the SmartPros eLP Webcast allows SmartPros clients to produce real-time and on-demand accredited Webinars as part of our core products. Our Webcasts feature streaming audio/video as well as delivery of slide presentations, audience polling and live testing capabilities.

Hawthorne Center of Excellence Certificate Programs

SmartPros will soon launch the Hawthorne Center of Excellence, encompassing a new series of advanced professional certificate programs developed by well-known college professors and subject matter experts. The first certificate programs will focus in the areas of Forensic Accounting and FASB 157. These in-depth programs are conducted in multiple parts, allowing professionals to earn certificates of specialized training.

Green Engineering Catalog

The Engineering division is preparing to debut a new catalog of "green" engineering modules designed to meet the growing demands for eco-friendly engineering processes. These comprehensive online courses are designed for certified engineers as well as related architecture and construction professionals.

Professional Services Newsletters

SmartPros will launch a series of professional services newsletters allowing its core audiences to easily publish their own branded online and offline client newsletters. Sold as an annual subscription service, SmartPros provides and hosts easy to use templates and news content allowing its subscribers to easily publish, distribute and track results of their campaigns.

Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes to the consolidated financial statements included elsewhere in this Form 10-K. Certain statements in this discussion and elsewhere in this report constitute forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. See "Forward-Looking Statements" following the Table of Contents of this 10-K. Because this discussion involves risk and uncertainties, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We provide learning solutions for accounting/finance, legal, insurance, banking, brokerage and engineering professionals - six large vertical markets with mandatory continuing education requirements. In addition, we provide training solutions for the pharmaceutical, banking, securities, insurance and technology industries. We also provide information technology, corporate governance, ethics and compliance training for the general corporate market. We offer off-the-shelf courses and custom-designed programs with delivery methods suited to the specific needs of our clients. Our customers include professional firms of all sizes, and a large number of midsize and small companies.

We measure our operations using both financial and other metrics. The financial metrics include revenues, gross margins, operating expenses and income from continuing operations. Other key metrics include (i) revenues by sales source, (ii) online sales, (iii) cash flows and (iv) EBITDA.

Some of the most significant trends affecting our business are the following:

- The increasing recognition by professionals and corporations that they must continually improve their skills and those of their employees in order to remain competitive;

- Continuing professional education requirements by governing bodies, including states and professional associations;

- The plethora of new laws and regulations affecting the conduct of business and the relationship between employers and their employees;

- The increased competition in today's economy for skilled employees and the recognition that effective training can be used to recruit and train employees; and

- The development and acceptance of the Internet as a delivery channel for the types of products and services we offer.

Over the last four years, our annual revenues have grown from $10.2 million to $18.3 million and our annual net operating income has grown from $739,000 to $1.3 million. This growth is due in large part to seven acquisitions that we have completed in this period. Our most recent acquisition was Loscalzo in July 2008. Loscalzo is a leading provider of live training to accountants. These courses are delivered through various state CPA societies, accounting firms, corporations or through seminars and conferences that they conduct. This acquisition expands our product line and customer base and gives us the opportunity to cross-market and cross-sell our full line of products to the Loscalzo customer base.

We intend to continue focusing on acquisitions that will allow us to increase the breadth and depth of our current product offerings, including the general corporate market for compliance, governance and ethics. We will also consider acquisitions that will give us access to new markets and products. We prefer acquisitions that are accretive, as opposed to those that are dilutive, but ultimately the decision will be based on maximizing shareholder value rather than short-term profits. The size of the acquisitions will be determined, in part, by our size, the capital available to us and the liquidity and price of our stock. We may use debt to enhance or augment our ability to consummate larger transactions.

There are many risks involved with acquisitions, some of which are discussed in Item 1 of Part 1 of this report above under the caption "Certain Risk Factors That May Affect Our Growth and Profitability." These risks include integrating the acquired business into our existing operations and corporate structure, retaining key employees and minimizing disruptions to our existing business. We cannot assure that we will be able to identify appropriate acquisition opportunities or negotiate reasonable terms or that any acquired business or assets will deliver the shareholder value that we anticipated at the outset.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements that have been prepared according to accounting principles generally accepted in the United States. In preparing these financial statements, we are required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We evaluate these estimates on an ongoing basis. We base these estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. We consider the following accounting policies to be the most important to the portrayal of our financial condition.

Revenues

A large portion of our revenues is in the form of subscription fees for any of our monthly accounting update programs or access to our library of accounting, financial services training and legal courses. Other sources of revenue include direct sales of programs or courses on a non-subscription basis or from various forms of live training, fees for Web site design, software development, tape and DVD duplication, video production, video conversion, course design and development, ongoing maintenance of the PEC, and licensing fees. Subscriptions are billed on an annual basis, payable in advance and deferred at the time of billing. Sales made over the Internet are by credit card only. Renewals are usually sent out 60 days before the subscription period ends. Larger transactions are usually dealt with by contract, the financial terms of which depend on the services being provided. Contracts for development and production services typically provide for a significant upfront payment and a series of payments based on deliverables specifically identified in the contract. Revenue is recognized on a percentage of completion basis.

Revenues from subscription services are recognized as earned; deferred at the time of billing or payment and amortized into revenue on a monthly basis over the term of the subscription. Engineering products are non-subscription based and revenue is recognized upon shipment of the product or, in the case of online sales, payment. Revenues from live training are recognized when earned, usually upon the completion of a one-day seminar or conference. Revenues from non-subscription services provided to customers, such as Web site design, video production, consulting services and custom projects are generally recognized on a proportional performance basis where sufficient information relating to project status and other supporting documentation is available. The contracts may have different billing arrangements resulting in either unbilled or deferred revenue. We obtain either a signed agreement or purchase order from our non-subscription customers outlining the terms and conditions of the sale or service to be provided. Otherwise, these services are recognized as revenues after completion and delivery to the customer. Duplication and related services are generally recognized upon shipment or, if later, when our obligations are complete and realization of receivable amounts is assured.

Revenues from live training are recognized when the seminar or conference is completed. These are usually one or two day events.

Impairment of long-lived assets

We review long-lived assets and certain intangible assets annually for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered.

Stock-based compensation

We have adopted the recognition and measurement requirements of SFAS No. 123R. As a result, compensation costs are now recognized in the financial statements for stock options or grants awarded to employees and directors. Options and warrants granted to non-employees are recorded as an expense at the date of grant based on the then estimated fair value of the security in question.

Segment accounting

All of our operations constitute a single segment, that of educational services. Revenues from non-educational services, such as video production are not a material part of our operating income.

Results of Operations

Comparison of the years ended December 31, 2008, and 2007

The following table compares our statement of operations data for the years ended December 31, 2008, and December 31, 2007. The trends suggested by this table may not be indicative of future operating results, which will depend on various factors including the relative mix of products sold (accounting/finance, engineering or corporate training) and the method of sale (video or online).

YEARS ENDED	DECEMBER 31, 2008		DECEMBER 31, 2007		
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	CHANGE
Net revenues	$18,256,328	100.0%	$15,204,506	100.0%	20.1%
Cost of revenues	7,811,500	42.8%	5,962,788	39.2%	31.0%
Gross profit	10,444,828	57.2%	9,241,718	60.8%	13.0%
General and administrative	8,200,253	44.9%	7,326,308	48.2%	11.9%
Depreciation and amortization	945,932	5.2%	749,272	4.9%	26.2%
Total operating expenses	9,146,185	50.1%	8,075,580	53.1%	13.3%
Operating income	1,298,643	7.1%	1,166,138	7.7%	11.4%
Other income (net)	204,182	1.1%	411,435	2.7%	(50.4%)
Income before benefit for income taxes	1,502,825	8.2%	1,577,573	10.4%	(4.7%)
Income tax benefit	98,438	0.5%	590,792	3.9%	(83.3%)
Net income	$ 1,601,263	8.8%	$ 2,168,365	14.3%	(26.2%)

Management's Discussion and Analysis of Financial Condition and Results of Operation

Net revenues

Net revenues for 2008 increased 20% compared to net revenues for 2007. Online revenues continue to be an important factor contributing to our overall revenue growth. In 2008, net revenues from online sales of subscription-based products and other sales accounted for approximately $6.8 million, or 37%, of our net revenues. In 2007, online revenues accounted for $5.7 million, or 38%, of our net revenues. Although online revenues have increased in total dollars, as a result of Loscalzo its percentage of total net revenues declined.

Net revenues from sales of our accounting/finance products grew in absolute terms but were relatively flat as a percentage of net revenues. In 2008, net revenues from our accounting/finance and related products were $11.2 million compared to $9.3 million in 2007. This increase was primarily due to Loscalzo. In each of 2008 and 2007 net revenues from accounting/finance products including both subscription and non-subscription based revenue was $8.2 million. Net revenues from live training, custom work and advertising were $3.0 million in 2008 as compared to $1.0 million in 2007. The difference is primarily attributable to Loscalzo.

Net revenues from sales of our engineering products, which are not subscription-based, were $979,000 in 2008 compared to $858,000 in 2007. The largest component of this increase was from an increase in sales from our MGI product line, which was $486,000 in 2008 as compared to $434,000 in 2007. Other engineering sales increased as a result of marketing efforts and the introduction of new courses. We are also developing new products for other engineering disciplines to address societal changes such as the desire for more "green" technology.

Net revenues from video production, duplication and consulting services decreased in 2008 by $79,000, to $211,000 from $290,000 in 2007. Although video production income increased $30,000 from 2007, the video duplication business continues to decline as video technology is being replaced by digital formats. Consulting work varies from year to year and sales are credited to the department from which they originate and not to the department where the work is performed.

Net revenues from SLE decreased slightly from $1.33 million in 2007 to $1.31 million in 2008. This decrease was primarily due to a decrease of $41,000 from Cognistar, offset by an increase of $18,000 from our ethics division. Working Values develops customized ethics training for its clients and Cognistar concentrates on delivering online continuing legal education.

Skye generated $2.34 million of net revenues in 2008 as compared to $2.16 million in 2007. Skye produces customized training and educational material for the pharmaceutical industry, professional firms, financial service companies and others.

Our financial services training division generated net revenues of $1.87 million in 2008 as compared to only $1.18 million in 2007. The largest portion of the growth comes from FC course sales.

Our technology training division, WatchIT, acquired in August 2007, generated net revenues of $289,000 in 2008 as compared to $92,000 of revenues in 2007.

Cost of revenues

Cost of revenues includes: (i) production costs, such as the salaries, benefits and other costs related to personnel, whether our employees or independent contractors, who are used directly in connection with producing or conducting our educational programs; (ii) royalties paid to third parties; (iii) the cost of materials, such as DVD's and packaging materials; and (iv) shipping costs. Compared to 2007, cost of revenues in 2008 increased by approximately $1.8 million. Approximately $800,000 of this increase came from Loscalzo and the remaining increase is a result of business that required a substantial amount of outsourcing in order to complete projects and increased royalty payments on some of our products. Cost of revenues in 2008 increased to 42.8% from 39.6% in 2007, resulting in a 13% decrease in our gross profit margin. With the addition of Loscalzo which represents approximately 17% of our net revenues on an annualized basis we anticipate a lower gross profit percentage as this business is more labor and cost intensive than our online products.

There are many different types of expenses that are characterized as production costs and they vary from period to period depending on many factors. The expenses that showed the greatest variations from 2007 to 2008 and the reasons for those variations were as follows:

- Outside labor and direct production costs. Outside labor includes the cost of hiring actors and production personnel such as directors, producers and cameramen and the outsourcing of non-video technology. It also includes the costs of instructors for live training and the production of those courses. These costs increased by $538,000 in 2008 from 2007. Both Skye and our consulting/technology departments employ a number of consultants to write scripts, edit course material and provide technology services. Loscalzo employs a number of consultants to write course material in addition to instructors throughout the United States. We have been outsourcing some of the programming and content development functions that were previously done by our employees to firms in India and China at a substantial savings. We are always exploring other areas such as the Philippines, for outsourcing our technology needs. Direct production costs, which are costs related to producing videos other than labor costs—such as the cost of renting equipment and locations, and the purchase of materials—increased by $399,000. These variations are related to the type of video production and custom projects and do not reflect any trends in our business.

- Salaries. Overall payroll and related costs attributable to production personnel increased by approximately $398,000. The increase was primarily attributable to salaries and related costs from our recent acquisitions including Loscalzo in 2008 and others made in 2007 offset by decreases in other areas such as video production/tape duplication. While our technology group and SLE salaries and related costs remained constant, this was offset by increased salaries from Skye of approximately $90,000 in 2008 from 2007.

- Royalties. Royalty expense increased in 2008 as compared to 2007 by $260,000. This was due to increased revenues in accounting education and engineering products and a change in a royalty agreement with one of our accounting education partners. In addition, we often have to estimate the royalty expense due our partners as the information may not be available. However, if volume increases or if we enter into new agreements or modify existing agreements, the actual royalty payments in 2009 under these agreements may be either higher or lower than they were in 2008.

- Other costs. Travel and entertainment and other miscellaneous expenses increased by $283,000, primarily related to Loscalzo. The largest component of these expenses is travel and entertainment that increased by $249,000 in 2008 from 2007 as a result of Loscalzo and other travel related to custom projects. Loscalzo bills certain customers for these expenses.

As our business grows we may be required to hire additional production personnel, increasing our cost of revenues.

General and administrative expenses

General and administrative expenses include corporate overhead such as: (i) compensation and benefits for administrative, sales and marketing and finance personnel; (ii) rent; (iii) insurance; (iv) professional fees; (v) travel and entertainment; and (vi) office expenses. General and administrative expenses in 2008 were higher than they were in 2007 by $874,000. Of this amount approximately $390,000 is directly attributable to Loscalzo, which resulted in increased rent, administrative payrolls and other costs. The remaining increase of approximately $484,000 is primarily due to salaries and related costs that were attributable to acquisitions made in the second half of 2007. In addition, in conformity with SFAS No. 123R, we are expensing the costs associated with the grants of option and restricted stock to employees and directors. This non-cash expense in 2007 was $120,000 and $223,000 in 2008. We anticipate that general and administrative expenses will increase in 2009 as we fully absorb our recent acquisition and increase marketing expenses.

Depreciation and amortization

Depreciation and amortization expenses were $196,000 higher in 2008 than they were in 2007. The increase is attributable to certain intangible assets acquired in 2007 and 2008. We have also begun to amortize the cost of our new PEC in the fourth quarter of 2008 resulting in an additional cost of approximately $50,000 in 2008.

We are also constantly upgrading our computer hardware as we have built an offsite data back-up center. We expect our depreciation and amortization expenses on our fixed and intangible assets to increase as we begin to amortize the costs related to these acquisitions and the development of our new PEC and SPA courses.

Operating income

For 2008, operating income was $1.30 million compared to $1.17 million in 2007, an increase of 11.4%. As a percentage of net revenues, operating income in 2008 was 7.1% compared to 7.7% in 2007, a decrease of 7.8%. Our recent acquisition of Loscalzo and acquisitions made in the second half of 2007 that are now fully absorbed have contributed to this increase in net income.

Other income

Other income and expense items primarily consist of interest earned on deposits. We currently have no outstanding debt, other than normal trade payables. Net interest income decreased by $207,000 due to decreased cash and substantially lower interest rates in 2008 as compared to 2007. We do not anticipate an increase in interest income as interest rates continue to remain very low in 2009.

Income tax benefit

We have now recognized the full benefit of our net operating loss carryforwards pursuant to SFAS No. 109. This has resulted in a net $98,000 benefit in 2008. We anticipate that in 2009 we will begin to use the tax-deferred benefit of approximately $1.1 million as we begin to incur federal income tax expense.

Net income

For 2008, we recorded net income of $1.60 million compared to $2.17 million for 2007. Our net profit margin for 2008 was 8.8% compared to 14.3% in 2007, a decrease of 38%. The decrease in net income is primarily due to a decrease in interest income of $207,000, and a decrease in the income tax benefits available through our net operating loss carryforwards of approximately $493,000, offset by an increased operating profit of $133,000.

Contractual Obligations, Commitments and Contingencies

Historically, we have financed our working capital requirements through internally generated funds, sales of equity and debt securities and proceeds from short-term bank borrowings.

Management's Discussion and Analysis of Financial Condition and Results of Operation

Our working capital as of December 31, 2008, was approximately $2.3 million compared to a $5.7 million working capital as of December 31, 2007. The decrease is attributable to positive cash flow from operations and earnings offset by cash used to acquire Loscalzo and purchase treasury shares. Our current ratio at December 31, 2008, is 1.31 to 1, compared to 1.86 to 1 at December 31, 2007. The current ratio is derived by dividing current assets by current liabilities and is a measure used by lending sources to assess our ability to repay short-term liabilities. The largest component of our current liabilities, approximately $5.6 million and $5.3 million at December 31, 2008 and 2007 respectively, is deferred revenue, which is revenue collected or billed but not yet earned under the principles of revenue recognition. Most of this revenue is in the form of subscription fees and will be earned over the next 12 months. The cost of fulfilling our monthly subscription obligation does not exceed this revenue and is booked to expense as incurred. For some of our products, there are no additional costs, other than shipping costs, required to complete this obligation as the material is already in our library.

For the year ended December 31, 2008, we had a net decrease in cash of $3.4 million. The majority of this was due to the $4.3 million expended for the Loscalzo acquisition and an investment in a joint venture and approximately $900,000 for asset acquisitions. We also expended $603,000 for the purchase of treasury shares. These decreases were offset by $2.3 million generated from operations. The primary components of our operating cash flows are our net income adjusted for non-cash expenses, such as depreciation and amortization, and the changes in accounts receivable, accounts payable and deferred revenues.

In comparison, for the year-ended December 31, 2007, we had a $2.7 million increase in cash. That increase was a result of cash generated by operations of $3.5 million and cash generated from investing activities of $245,000. This was offset by a decrease in cash of $1.1 million for investing activities including the acquisition of equipment, capitalization of the PEC and purchase of treasury shares.

Capital expenditures for the year ended December 31, 2008, were approximately $878,000, of which $216,000 consisted of computer equipment, most of which was at our off-site backup center, a requirement of SOX compliance. We capitalized $44,000 of costs for the production of various courses and $618,000 for capitalizing the costs of our new PEC. We are constantly upgrading our technology and cannot anticipate any significant increase in capital expenditures relating to equipment purchases over the next 12 months.

At year-end, we had no indebtedness for borrowed money.

As of December 31, 2008, we had commitments under various leases for our offices in Hawthorne, New York, the SLE office in Westborough, Massachusetts, Skye's offices in Bridgewater, New Jersey, and Loscalzo's office in Red Bank, New Jersey. The total aggregate commitment under these leases is approximately $4.0 million through January 2019. SLE recently entered into a new lease that expires in January 2012 and calls for a monthly rent of approximately $2,500. The Skye lease was recently extended to August 2009 at a monthly rental of $3,670 and the lease for the Loscalzo office expires on June 30, 2011, at a monthly rent of $5,000.

The former shareholders of Skye are also entitled to a contingent payment based on certain levels of sales through December 31, 2008, less adjustments for use of capital and other costs. The total additional payment cannot exceed $1,200,000. At our discretion, the additional payment may be paid 50% in cash and 50% in our common stock. If the additional payment is made in stock, it will be determined by the average price for the 20 trading days subsequent to December 31, 2008. We have accrued $925,000 as our estimated liability.

In the future, we may issue additional debt or equity securities to satisfy our cash needs. Any debt incurred or issued may be secured or unsecured, at a fixed or variable interest rate and may contain other terms and conditions that our Board of Directors deems prudent. Any sales of equity securities may be at or below current market prices. We cannot assure that we will be successful in generating sufficient capital to adequately fund our liquidity needs.

Interest Rate Risk

Interest rate risk represents the potential loss from adverse changes in market interest rates. As we may hold U.S. Treasury securities or money market funds, we may be exposed to interest rate risk arising from changes in the level and volatility of interest rates and in the shape of the yield curve.

Credit Risk

Most of our cash is held in deposit accounts, U.S. Treasury and non-Treasury money market funds. Our bank deposit accounts are insured by the U.S. government but only up to a maximum of $250,000 at any one bank. Our money market funds are held in a brokerage account that is insured by the Security Industry Protection Corp (SIPC) up to $500,000 and various brokerage firms may carry additional insurance from commercial insurance companies. Our cash balances vary from time to time based on a variety of factors but in most cases are significantly in excess of the insurable limit. As a result, we have exposure on these accounts in the event these financial institutions become insolvent.

In addition, we may have credit risk with respect to customers who default on custom orders or who default on subscription payments.

Seasonality and Cyclicality

Historically, the fourth quarter has been our strongest in terms of revenue generation. This is due to the fact that most of our subscriptions follow the calendar year and renewals are mailed out 60 days before the end of the year. Also, for internal budgeting reasons, corporate clients tend to defer their decisions to the end of the year. Loscalzo derives most of its revenue in the second half of the year.

In general, since most of our business relates to continuing professional education and is non-discretionary, we do not believe that business cycles have a material impact on our financial performance. With the current down turn in the economy we have noticed many of our clients are taking longer to make renewal decisions and more closely examining their use of our various products. Adverse business conditions and developments, however, would negatively affect the performance of some of our product lines.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements." We believe that this pronouncement will not have a material impact on our financial statements.

Also in December 2007, the FASB issue SFAS No. 141R, "Business Combinations." SFAS No. 141R is effective for periods beginning after December 15, 2008, and may not be applied retroactively. We believe that this pronouncement will affect the way we treat any contingent purchase price on future acquisitions, as the pronouncement requires establishing an estimate of that amount at the time of acquisition.

In October 2008, the FASB issued FSP FAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Is Asset Not Active " with an immediate effective date, including prior periods for which financial statements have not been issued. FSP FAS No. 157-3 clarifies the application of fair value in inactive markets and allows for the use of management's internal assumptions about future cash flows with appropriately risk-adjusted discount rates when relevant observable market data does not exist. The objective of FAS No. 157-3 has not changed and continues to be the determination of the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. The adoption of FSP FAS No. 157-3 in the second quarter did not have a material effect on the Company's results of operations, financial position or liquidity.

Consolidated Balance Sheets

DECEMBER 31,	2008	2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,626,181	$10,072,338
Accounts receivable, net of allowance for doubtful accounts of $39,677 and $39,842 at December 31, 2008 and 2007, respectively	3,114,139	1,964,483
Prepaid expenses and other current assets	249,281	237,097
Total Current Assets	9,989,601	12,273,918
Property and Equipment, net	607,988	630,857
Goodwill	3,394,329	145,684
Other Intangibles, net	4,500,639	3,296,538
Other Assets, including restricted cash of $150,000	155,613	154,673
Deferred Tax Asset	1,103,923	978,000
Investment in Joint Venture, at cost	23,890	–
	9,786,382	5,205,752
Total Assets	$19,775,983	$17,479,670
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 779,870	$ 786,781
Accrued expenses	1,294,042	419,886
Other liabilities	–	40,040
Deferred revenue	5,576,607	5,318,382
Total Current Liabilities	7,650,519	6,565,089
Long-Term Liabilities:		
Other liabilities - net of current portion	–	40,041
Total Long-Term Liabilities	–	40,041
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $.001 par value; 1,000,000 shares authorized, 0 shares issued and outstanding	–	–
Common stock, $.0001 par value; 30,000,000 shares authorized, 5,324,316 and 5,304,698 shares issued as of December 31, 2008 and 2007, respectively, and 4,841,567 and 4,993,967 shares outstanding as of December 31, 2008 and 2007, respectively	532	530
Common stock in treasury, at cost - 482,749 and 310,731 shares as of December 31, 2008 and 2007, respectively	(1,525,723)	(922,625)
Additional paid-in capital	17,155,851	16,925,314
Accumulated deficit	(3,505,196)	(5,106,459)
	12,125,464	10,896,760
Deferred compensation	–	(22,220)
Total Stockholders' Equity	12,125,464	10,874,540
Total Liabilities and Stockholders' Equity	$19,775,983	$17,479,670

See notes to consolidated financial statements.

Consolidated Statements of Income

YEARS ENDED DECEMBER 31,	2008	2007
Net Revenues	$18,256,328	$15,204,506
Cost of Revenues	7,811,500	5,962,788
Gross Profit	10,444,828	9,241,718
Operating Expenses:		
Selling, general and administrative	8,200,253	7,326,308
Depreciation and amortization	945,932	749,272
	9,146,185	8,075,580
Operating Income	1,298,643	1,166,138
Other Income (Expense):		
Interest and dividend income, net	215,292	411,435
Loss from joint venture	(11,110)	–
	204,182	411,435
Net Income before Benefit for Income Taxes	1,502,825	1,577,573
Income Tax Benefit	98,438	590,792
Net Income	$ 1,601,263	$ 2,168,365
Net Income Per Common Share:		
Basic net income per common share	$ 0.32	$ 0.44
Diluted net income per common share	$ 0.32	$ 0.43
Weighted Average Number of Shares Outstanding:		
Basic	4,938,548	4,924,098
Diluted	4,975,198	5,022,911

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

YEARS ENDED DECEMBER 31, 2008 AND 2007

	COMMON STOCK		PREFERRED STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	DEFERRED COMPENSATION	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT					
Balance at January 1, 2007	5,186,505	$519	–	$ –	$16,572,944	$(7,274,824)	$(77,440)	$ (922,625)	$8,298,574
Common Stock Issued by Exercise of Options	24,401	2	–	–	125,579	–	–	–	125,581
Common Stock Issued by Exercise of Underwriters' Warrants	87,765	8	–	–	100,084	–	–	–	100,092
Recapture of Short-Swing Profits	–	–	–	–	31,195	–	–	–	31,195
Amortization of Deferred Compensation	–	–	–	–	–	–	– 55,220	–	55,220
Stock Option Expense	–	–	–	–	41,430	–	–	–	41,430
Issuance of Shares from Restricted Stock Plan	6,027	1	–	–	54,082	–	–	–	54,083
Net Income	–	–	–	–	–	2,168,365	–	–	2,168,365
Balance at December 31, 2007	5,304,698	530	–	–	16,925,314	(5,106,459)	(22,220)	(922,625)	10,874,540
Common Stock Issued by Exercise of Options	12,716	1	–	–	29,339	–	–	–	29,340
Issuance of Shares from Restricted Stock Plan	6,902	1	–	–	126,076	–	–	–	126,077
Amortization of Deferred Compensation	–	–	–	–	–	–	22,220	–	22,220
Stock Option Expense	–	–	–	–	75,122	–	–	–	75,122
Purchase of Treasury Shares	–	–	–	–	–	–	–	(603,098)	(603,098)
Net Income	–	–	–	–	–	1,601,263	–	–	1,601,263
Balance at December 31, 2008	5,324,316	$532	–	$ –	$ 17,155,851	$(3,505,196)	$ –	$(1,525,723)	$12,125,464

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31,	2008	2007
Cash Flows from Operating Activities:		
Net income	$ 1,601,263	$ 2,168,365
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	945,932	749,272
Stock compensation expense	201,198	95,510
Deferred compensation	22,220	55,220
Deferred income tax benefit	(125,923)	(600,000)
Loss from joint venture	11,110	–
Gain on sale of equipment	(3,616)	–
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	(390,465)	(3,544)
Prepaid expenses and other current assets	35,155	40,296
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(168,231)	273,573
Deferred revenue	226,458	802,236
Other liabilities	(80,081)	(40,056)
Total adjustments	673,757	1,372,507
Net Cash Provided by Operating Activities	2,275,020	3,540,872
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(215,784)	(324,350)
Capitalized course costs	(43,932)	(92,341)
Capitalized software development	(617,961)	(376,536)
Fixed assets acquired from acquisitions	–	(77,201)
Intangible assets acquired from acquisitions	–	(210,512)
Proceeds from sale of asset	12,000	–
Investment in joint venture	(35,000)	–
Cash paid for business acquisitions	(4,246,742)	(26,484)
Net Cash Used in Investing Activities	(5,147,419)	(1,107,424)
Cash Flows from Financing Activities:		
Purchase of treasury shares	(603,098)	–
Net proceeds from exercise of stock options, warrants and other	29,340	256,868
Payments under capital lease obligations	–	(11,767)
Net Cash (Used in) Provided by Financing Activities	(573,758)	245,101
Net (Decrease) Increase in Cash and Cash Equivalents	(3,446,157)	2,678,549
Cash and Cash Equivalents, beginning of year	10,072,338	7,393,789
Cash and Cash Equivalents, end of year	$ 6,626,181	$10,072,338
Supplemental Disclosure:		
Cash paid for interest	$ 287	$ 1,044
Cash paid for income taxes	$ 27,562	$ 9,208
Additional purchase consideration payable for earn-out	$ 925,000	$ –

See notes to consolidated financial statements.

Note 1:
Description of Business and Summary of Significant Accounting Policies

Nature of operations - SmartPros Ltd. and Subsidiaries ("SmartPros" or the "Company"), a Delaware corporation, was organized in 1981 as Center for Video Education Inc. for the purpose of producing educational videos primarily directed to the accounting profession. SmartPros' primary products today are periodic video and internet subscription services directed to corporate accountants and financial managers, accountants in public practice and CPA exam candidates. In 2008, the Company acquired Loscalzo Associates, Ltd. ("Loscalzo"), a leading provider of live training to accountants. In addition, the Company also produces a series of continuing education courses directed to the engineering profession, as well as a series of courses designed for candidates for the professional engineering exam. Its wholly-owned subsidiary, SmartPros Legal and Ethics, Ltd. ("SLE") produces ethics, governance and compliance programs for corporate clients, and through its Cognistar division, produces online and customized training courses for the legal profession. Its other wholly-owned subsidiary, Skye Multimedia Ltd. ("Skye") produces customized training solutions for a number of industries including the pharmaceutical, professional services and others. As a result of recent acquisitions, the Company acquired a library of nationally certified online training solutions for the banking, securities and insurance industries, as well as courses designed for live training. The engineering division provides training courses for the profession and preparation for professional licensing examinations. SmartPros also produces custom videos and rents out its studios. SmartPros is located in Hawthorne, New York, where it maintains its corporate offices, new media lab, video production studios and tape duplication facilities.

Basis of presentation - The consolidated financial statements of SmartPros include the accounts of SmartPros and its wholly-owned subsidiaries, SLE, Skye and Loscalzo. All significant intercompany balances and transactions have been eliminated.

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 disclosure of contingent assets and liabilities at the dates of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition - The Company recognizes revenue from its subscription services as earned. Subscriptions are generally billed on an annual basis, deferred at the time of billing and amortized into revenue on a monthly basis over the term of the subscription, generally one year. Engineering products are non-subscription based and revenue is recognized upon shipment or, in the case of online sales, upon receipt of payment. Revenues from other non-subscription services, such as website design, video production, consulting services, and custom projects, are recognized on a percentage of completion method where sufficient information relating to project status and other supporting documentation is available. The contracts may have different billing arrangements resulting in either unbilled or deferred revenue. The Company obtains either signed agreements or purchase orders from its non-subscription customers outlining the terms and conditions of the products or services to be provided. Otherwise, revenues are recognized after completion and/or delivery of services to the customer. Duplication and related services are generally recognized upon shipment or, if later, when the Company's obligations are complete and realization of receivable amounts are assured.

Segment accounting - The Company has evaluated the requirements under SFAS No. 131, "Financial Reporting for Segments of a Business Enterprise". The Company's management monitors the revenue streams of its various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's operations are considered by management to be aggregated in one reportable segment, educational services. Comprehensive income (loss) - Comprehensive income (loss) refers to revenue, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income, but are excluded from net income, as these amounts are recorded directly as an adjustment to stockholders' equity. At December 31, 2008 and 2007, there were no such adjustments required.

Cash and cash equivalents - All highly liquid instruments with an original maturity of three months or less are considered cash equivalents. From time to time, the Company invests a portion of its excess cash in money market accounts that are stated at cost and approximate market value.

Investments - The Company has established a policy to invest in AAA-rated bonds with short-term maturities or money market funds pursuant to its investment policy. The Company determines the appropriate classification of securities at the time of purchase and reassesses the appropriateness of the classification at each reporting date. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders' equity. Realized gains and losses on the sale of securities, as determined on a specific identification basis, are included in the consolidated statements of operations. As of, and for the years ended December 31, 2008 and 2007, the Company had no short-term investments or unrealized gains or losses on available-for-sale securities.

Concentration of credit risk - Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and accounts receivable. From time to time, the cash balances exceed the federal depository insurance coverage limit of $250,000. The Company's cash balances are deposited with high credit quality financial institutions. No single customer represents a significant concentration of sales or receivables. With the recent economic problems in the financial sector, the Company closely monitors its cash investments in money market funds.

Accounts receivable - Accounts receivable are recorded at original invoice amount less an allowance that management believes will be adequate to absorb estimated losses on existing accounts receivable. The allowance is established through a provision for bad debts charged to expense. Accounts receivable are charged against the allowance for doubtful accounts when management believes that collectability is unlikely. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing accounts receivable, based on an evaluation of the collectability of accounts receivable and prior bad debt experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the accounts receivable, overall accounts receivable quality, review of specific problem accounts receivable, and current economic conditions that may affect the customer's ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Accounts receivable are generally considered to be past due if any portion of the receivable balance is outstanding for more than 90 days.

Shipping and handling costs - The Company has included freight-out as a component of cost of goods sold for the years ended December 31, 2008 and 2007.

Property and equipment - Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives, ranging from three to ten years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the life of the lease. Expenditures for maintenance and repairs are charged to operations as incurred and major expenditures for renewals and improvements are capitalized and depreciated over their useful lives.

Long-lived assets - The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement establishes financial accounting and reporting standards for the impairment of long-lived assets and certain intangibles related to those assets to be held and used, and for long-lived assets and certain intangibles to be disposed of. SFAS No. 144 requires, among other things, that the Company reviews its long-lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If this review indicates that the long-lived asset will not be recoverable, as determined based on the estimated undiscounted cash flows of the Company over the remaining amortization period, the carrying amount of the asset is reduced by the estimated shortfall of cash flows. The Company believes that none of the Company's long-lived assets were impaired.

Goodwill - Goodwill represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identified intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Intangible assets - Certain intangible assets are being amortized on a straight-line basis over their estimated useful lives, which vary between 3 to 19 years.

Capitalized course costs - Capitalized course costs include the direct cost of internally developing proprietary educational products and materials that have extended useful lives. Amortization of these capitalized course costs commences when the courses are available for sale from the Company's catalog. The Company has expended approximately $44,000 and $92,000 on such costs for the years ended December 31, 2008 and 2007, respectively. The amortization period is five years, except for the Sarbanes-Oxley courses that had a three-year amortization period and are now fully amortized. Other course costs incurred in connection with any of the Company's monthly subscription products or custom work is charged to expense as incurred. As a result of recent acquisitions, the Company acquired an additional $200,000 of course costs in 2008 that are being amortized over a three-year period. Included in other intangible assets are course costs net of accumulated amortization of $611,000 and $485,000 at December 31, 2008 and 2007, respectively.

Capitalized software development - The Company has developed a new Learning Management System ("LMS") and has capitalized those costs permissible under SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed". Total capitalized costs as of December 31, 2008 are $994,497. The Company began amortizing these costs over a five-year period in the fourth quarter of 2008. Amortization expense for 2008 was $49,725.

Deferred revenue - Deferred revenue related to subscription services represents the portion of unearned subscription revenue, which is amortized on a monthly, straight-line basis, as earned. Deferred revenue related to web site design and video production services represents that portion of amounts billed by the Company, or cash collected by the Company, for which services have not yet been provided or earned in accordance with the Company's revenue recognition policy.

Income taxes - Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred taxes are recognized for the estimated taxes ultimately payable or recoverable based on enacted tax laws. Changes in enacted tax rates and laws are reflected in the financial statements in the periods they occur.

Net income per share - Basic net income per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share reflect in periods, in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options and warrants and non-vested shares of common stock.

The reconciliation for the years ended December 31, 2008 and 2007 is as follows:

YEARS ENDED DECEMBER 31,	2008	2007
Weighted Average Number of Shares Outstanding	4,938,548	4,924,098
Effect of Dilutive Securities, common stock equivalents	36,650	98,813
Weighted Average Number of Shares Outstanding, used for computing diluted earnings per share	4,975,198	5,022,911

Stock-based compensation - The Company accounts for stock based compensation in accordance with Financial Accounting Standard No. 123R, "Share-Based Payment" (SFAS No. 123R). Under the fair value recognition provisions of this statement, stock based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the vesting period. Determining the fair value of share-based awards at the grant date requires assumptions and judgments about expected volatility and forfeiture rates, among other factors.

Advertising - Advertising is expensed as incurred and was approximately $116,000 and $62,000 for the years ended December 31, 2008 and 2007, respectively.

Reclassifications - Certain prior year balances have been reclassified to conform with current year classifications.

New accounting pronouncements - In December 2007, the FASB issued SFAS No. 141R, "Business Combinations", which changes how business acquisitions are accounted. SFAS No. 141R requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard will, among other things, impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquired contingencies, acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. SFAS No. 141R is effective for business combinations occurring after December 15, 2008. The Company is currently evaluating the future impacts and disclosures of this standard.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51", which establishes new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also requires changes to certain presentation and disclosure requirements. SFAS No. 160 is effective beginning January 1, 2009. The provisions of the standard are to be applied to all NCIs prospectively, except for the presentation and disclosure requirements, which are to be applied retrospectively to all periods presented. The Company is currently evaluating the future impacts and disclosures of this standard.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 became effective for the Company on January 1, 2008. Adoption of SFAS No. 157 did not have a material impact on the consolidated financial statements of the Company.

In October 2008, the FASB issued FSP FAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Is Asset Not Active" (FAS No. 157-3) with an immediate effective date, including prior periods for which financial statements have not been issued. FSP FAS No. 157-3 clarifies the application of fair value in inactive markets and allows for the use of management's internal assumptions about future cash flows with appropriately risk-adjusted discount rates when relevant observable market data does not exist. The objective of FAS No. 157-3 has not changed and continues to be the determination of the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. The adoption of FSP FAS No. 157-3 did not have a material effect on the Company's consolidated financial statements.

Note 2:
Acquisition and Joint Venture

In July 2008, the Company acquired all of the outstanding shares of Loscalzo for approximately $4,400,000. Loscalzo is a leading provider of in-house training for accounting firms. It also conducts live class-room style training for both its own account and numerous state accounting societies. The Company's core products have been focused on self-study and online learning, whereas, Loscalzo is a leading provider of live training offered through a number of different mediums. With Loscalzo in the mix, the Company now offers a complete, blended learning environment for accounting and finance professionals and organizations on a national level. In conjunction with the acquisition, Loscalzo's president was given a two year employment agreement. The purchase price of the acquisition exceeded the carrying value of the assets acquired. The allocation of the excess of the purchase price over the carrying value was classified as follows:

Restrictive Covenant	$ 200,000
Trade Name	350,000
Customer Lists	400,000
Course Content	200,000
Other Intangible Assets	15,000
Goodwill and Other Non-Amortizable Intangibles	2,323,645
	$3,488,645

The course content is being amortized over a three-year period, the restrictive covenant and client lists are being amortized over a ten-year period.

The following pro forma results for the years ended December 31, 2008 and 2007 assume that the Loscalzo acquisition was made as of January 1, 2007:

YEARS ENDED DECEMBER 31,	2008	2007
Revenues	$19,524,000	$18,600,000
Net Income	1,600,000	3,500,000
Basic Net Income per Share	.32	.45
Diluted Net Income per Share	.32	.44

In 2008, Skye, our subsidiary, formed a joint venture with Education and Training Systems International (ETSI) for the purpose of marketing its iReflect product and invested $35,000 in this joint venture. iReflect is an inter-active, web-based tool used for the development of marketing and presentation skills. The investment in the joint venture has been accounted for using the equity method and Skye has reduced the carrying amount of its investment by its share of losses in the joint venture.

Note 3:
Property and Equipment, net

The components of property and equipment are as follows:

YEARS ENDED DECEMBER 31,	2008	2007
Furniture, Fixtures and Equipment	$4,011,864	$3,733,044
Leasehold Improvements	189,709	189,709
	4,201,573	3,922,753
Less Accumulated Depreciation	3,593,585	3,291,896
	$ 607,988	$ 630,857

Depreciation expense for the years ended December 31, 2008 and 2007 were approximately $230,000 and $214,000, respectively.

Note 4:
Goodwill and Other Intangible Assets, net

The components of intangible assets are as follows:

YEARS ENDED DECEMBER 31,	2008	2007
Engineering Courses	$2,766,837	$2,766,837
Rights to CPA Report (CPAR)	1,700,000	1,700,000
Pro2Net Courses (P2N)	837,504	837,504
Course Content	996,988	714,848
Customer Lists	728,500	328,500
Restrictive Covenant	200,000	–
Trade Name	350,000	–
Capitalized Software Development	994,497	376,536
Financial Campus	340,894	340,894
Other Intangible Assets	803,330	733,197
	9,718,550	7,798,316
Less Accumulated Amortization	5,217,911	4,501,778
	$4,500,639	$3,296,538

The aggregate amortization expense for each of the years ended December 31, 2008 and 2007 was approximately $716,000 and $535,000, respectively.

Estimated amortization expense for the five years subsequent to December 31, 2008 is as follows:

YEARS ENDING DECEMBER 31,	
2009	$816,000
2010	731,000
2011	604,000
2012	464,000
2013	388,000

The following table presents the changes in the carrying amount of goodwill and other intangibles during the years ended December 31, 2008 and 2007:

	GOODWILL	OTHER INTANGIBLE ASSETS
Balance, January 1, 2007	$ 130,684	$2,651,132
Amortization Expense	–	(535,099)
Goodwill and Intangibles Acquired	15,000	1,180,505
Balance, December 31, 2007	145,684	3,296,538
Amortization Expense	–	(716,133)
Goodwill and Intangibles Acquired	3,248,645	1,920,234
Balance, December 31, 2008	$3,394,329	$4,500,639

The Company's asset purchase agreement with Skye provides for a contingent purchase price based on certain criteria. The Company has estimated its liability at $925,000 subject to certain adjustments. These amounts have been included in goodwill above.

Note 5:
Income Taxes

At December 31, 2008 and 2007, the Company has a net deferred tax asset of approximately $1,100,000 and $978,000, respectively, primarily resulting from the future tax benefit of net operating loss carryforwards. The net valuation allowance decreased by approximately $523,000 for the year ended December 31, 2008. Realization of deferred tax assets depends on sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to be available to reduce taxable income. At December 31, 2008, the Company has net operating loss carryforwards available to offset future taxable income of approximately $3,300,000 which expire in 2023.

The components of income tax benefit for the years ended December 31, 2008 and 2007 consist of the following:

	2008	2007
Current:		
Federal	$ 27,562	$ 9,208
State	–	–
	27,562	9,208
Deferred:		
Federal	(107,000)	(510,000)
State	(19,000)	(90,000)
	(126,000)	(600,000)
Income Tax Benefit	$(98,438)	$(590,792)

Deferred income tax expense results primarily from the reversal of temporary timing differences between tax and financial statement income.

A reconciliation of income tax expense at the federal statutory rate to income tax expense at the Company's effective rate is as follows:

YEARS ENDED DECEMBER 31,	2008	2007
U.S. Federal Statutory Income Tax Rate	34.0 %	34.0 %
Valuation Allowance	(41.0)%	(71.0)%
Income Tax Benefit	(7.0)%	(37.0)%

The temporary differences and carryforwards gave rise to the following deferred tax asset:

YEARS ENDED DECEMBER 31,	2008	2007
Depreciation and Amortization	$ 57,000	$ 17,000
NOL Carryforward	1,093,000	1,530,000
Valuation Allowance	(46,000)	(569,000)
	$1,104,000	$978,000

Note 6:
Stockholders' Equity

In 2007, two employees and one consultant to the Company exercised their vested stock options for the purchase of 24,401 shares of common stock at prices ranging between $4.05 and $5.32.

The Company received a net of $31,195 after deducting legal expenses, as the result of a penalty assessed against a more than 10% shareholder for violation of Rule 16b of the Securities and Exchange Act of 1934 for the violation of short-swing profits rules.

In January 2008, the Company's compensation committee granted certain officers and key employees of the Company a total of 18,072 shares of restricted common stock. The grant vests one-third immediately and one-third each year, thereafter. The grants were part of a bonus paid for 2007 and were considered issued as of December 31, 2007 and included in the total outstanding shares as of that date. The stock is unregistered and subject to certain forfeiture provisions if the employee leaves the Company prior to January 29, 2009.

In 2008, one employee and two former consultants to the Company exercised their vested stock options for the purchase of 12,716 shares of common stock at prices ranging between $2.15 and $2.75.

Note 7:
Stock Option Plan

The Company's 1999 Stock Option Plan (the "Plan"), as amended, provided for the grant of incentive or non-qualified stock options and restricted stock awards for the purchase of up to 882,319 shares of common stock to employees, directors and consultants. As of December 31, 2008, 765,143 shares are available under the Plan, provided that restricted stock grants may not exceed 200,000 shares and 66,772 restricted shares have been issued, leaving a net balance of which, 133,228 are reserved for the issuance of stock grants. The Plan is administered by the Compensation Committee of the board of directors of the Company. The administrator of the Plan determines the terms of options, including the exercise price, expiration date, number of shares and vesting provisions.

The weighted average estimated fair value of stock options granted for the year ended December 31, 2008 and 2007 was $2.29 and $2.06, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes Option Pricing Model. During 2008, the Company took into consideration guidance under SFAS No. 123R when reviewing and updating assumptions. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously such assumptions were determined based on historical data.

The assumptions made in calculating the fair values of options for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Contractual Term	10 years	10 years
Expected Volatility	45%	35%-45%
Expected Dividend Yield	0%	0%
Risk-Free Interest Rate	2.8%-3.0%	4.1%-4.63%
Expected Term	5.5 years	5.5-6.0 years

For the years ended December 31, 2008 and 2007, share-based compensation expense related to stock options was approximately $75,000 and $41,000, respectively. As of December 31, 2008, the fair value of unamortized compensation cost related to unvested stock option awards was approximately $126,000. Unamortized compensation cost as of December 31, 2008, is expected to be recognized over a remaining weighted-average vesting period of three years.

As of December 31, 2008 and 2007, the total intrinsic value, which is the difference between the exercise price and closing price of the Company's common stock of options outstanding and exercisable, was $3,000 and $495,000, respectively.

In February 2008, the Company granted 34,025 options to various employees. These options vest in three years. Of these options, 31,025 have an exercise price of $5.10 and 3,000 have an exercise price of $5.16.

In February 2009, the Compensation Committee granted options and restricted stock awards to certain officers, senior management and employees of the Company. All of the awards were granted at $2.54. Included in the grant are 55,750 stock options and 116,616 restricted stock grants, all of which have various vesting schedules ranging from February 2009 through February 2013.

A summary of all stock option activity for the years ended December 31, 2008 and 2007 is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2007:	385,607	$4.57
Options granted	30,500	5.60
Options cancelled	(4,909)	3.9
Options expired	(517)	5.32
Options exercised	(24,401)	5.15
Outstanding, December 31, 2007:	386,280	4.62
Options granted	34,025	5.11
Options cancelled	(42,445)	4.89
Options expired	–	–
Options exercised	(12,716)	2.31
Outstanding, December 31, 2008	365,144	$4.71
Exercisable, December 31, 2008	297,254	$4.55

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercise	Weighted Average Remaining Contractual Life (Years)
$ 2.15	14,939	0.5	$ 2.15	14,939	0.5
2.42	25,850	3.1	2.42	25,850	3.1
2.75	16,000	7.8	2.75	10,666	7.8
3.00	1,850	7.2	3.00	1,386	7.2
3.05	9,000	7.1	3.05	6,750	7.1
3.44	15,000	6.8	3.44	15,000	6.8
4.00	10,000	6.3	4.00	10,000	6.3
4.05	6,667	7.8	4.05	3,333	7.8
4.15	300	6.6	4.15	300	6.6
4.27	15,175	5.8	4.27	15,175	5.8
4.49	5,000	8.1	4.49	1,667	8.1
5.10	30,175	9.3	5.10	–	–
5.16	3,000	9.3	5.16	–	–
5.32	185,069	1.2	5.32	185,069	1.2
5.50	1,500	8.2	5.50	1,000	8.2
5.78	15,000	8.8	5.78		–
5.94	9,000	8.7	5.94	4,500	8.7
21.41	1,245	0.5	21.41	1,245	0.5
32.13	374	0.5	32.13	374	0.5
$ –	365,144	5.7	$ 4.71	297,254	5.7

Note 8: Commitments and Contingencies

The Company leases office space and production and warehouse facilities in Hawthorne, New York, Westborough, Massachusetts, Bridgewater and Red Bank, New Jersey. The office in Red Bank, New Jersey is owned by an affiliate of the president of Loscalzo. Future minimum lease payments are as follows:

Years ending December 31,	
2009	$ 436,327
2010	412,296
2011	383,293
2012	340,341
2013	339,150
And thereafter	2,064,501
	$3,975,908

Rent expense is recorded on a straight-line basis over the lease term. Rent expense for the years ended December 31, 2008 and 2007 was approximately $431,000 and $445,000, respectively.

The Company arranged for a $150,000 letter of credit representing a security deposit for the Hawthorne, New York lease. The Company has pledged a $150,000 certificate of deposit to the bank issuing the letter of credit as collateral for the letter of credit and the restricted cash account is included in other assets.

Employment agreements - The Company has employment agreements with its chief executive officer, its president, its chief financial officer, its chief technology officer and the presidents of SLE, Skye and Loscalzo. The employment agreement with the Company's chief executive officer was renewed in February 2007, and is for a term of three years. The agreement renews automatically for a new three-year term at the end of the first year of each three-year term, unless either party gives notice of their intent not to renew before the end of the first year, of each three-year term. The chief financial officer's agreement was renewed in July 2008 and expires June 2011. The employment agreement with the president was renewed on October 1, 2008 for a period of three years. The chief technology officer's agreement was entered into on October 1, 2007 for a period of three years. Each employment agreement provides for specified annual base salaries, subject to increases at the discretion of the Company's board of directors. Under certain agreements, if the Company terminates any executive's employment without cause, or if an executive terminates his employment for good reason, the executive is entitled to receive certain severance benefits. The employment agreement with the president of SLE provides for performance and other bonuses, if the Company reaches certain income levels. To date, no amounts have been paid or accrued in connection with this provision. Skye's president's agreement is for three years, beginning March 1, 2006 and expires January 31, 2009, and was extended at the Company's option for one additional year. The agreement with the president of Loscalzo is for two years, expiring in June 2010.

At December 31, 2008, the aggregate commitment under the five employment agreements for the senior executives approximated $1,120,000.

Litigation - The Company is currently not a party in any litigation other than that arising in the normal course of its business operations.

Note 9: Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of the following classes of financial instruments were:

Current assets and current liabilities - The carrying values of cash, investments securities available-for-sale, accounts receivables, payables and certain other short-term financial instruments approximate their fair value.

Report of Independent Registered Public Accounting Firm

Board of Directors
SmartPros Ltd. and Subsidiaries
Hawthorne, New York

We have audited the accompanying consolidated balance sheets of SmartPros Ltd. and Subsidiaries (the "Company") as of December 31, 2008 and December 31, 2007, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SmartPros Ltd. and Subsidiaries as of December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for the two years ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Holtz Rubenstein Reminick LLP
Melville, New York
March 13, 2009

Directors, Officers and Corporate Information

Board of Directors

Allen S. Greene
Chairman of the Board
Chief Executive Officer
SmartPros Ltd.

Jack Fingerhut
Director
President
SmartPros Ltd.

John J. Gorman, Esq.
Director
Partner
Luse Gorman Pomerenk & Schick, PC

Martin H. Lager
Director
Owner
Martin H. Lager CPA

Leonard J. Stanley
Director
Chief Financial Officer
Utendahl Capital Partners, L.P.

Corporate Officers

Allen S. Greene
Chief Executive Officer
Chairman of the Board

Jack Fingerhut
President, Director

Stanley Wirtheim
Chief Financial Officer

Joseph Fish
Chief Technology Officer
Executive Vice President

Karen Stolzar
Vice President &
Corporate Secretary

Catherine Finamore Henry
Ethics Officer, SmartPros Ltd.
Vice President,
Business Development
SmartPros Legal & Ethics Ltd.

Senior Management & Division Heads

Mike Fowler
Senior Vice President
Business Development

Shane Gillispie
Vice President
Marketing & eCommerce

Jeffrey Jacobs
Vice President & Publisher

James Graham
General Manager
SmartIT

Jay Gregory
Vice President, Operations
Financial Services

Mark Luciano
Vice President
Engineering & Channel Partners

Stanton Selbst
Vice President, Consulting
Financial Services

Stephen Henn
President
SmartPros Legal & Ethics Ltd.

Margaret Loscalzo
President
Loscalzo Associates Ltd.

Seth Oberman
President
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Stock Market Information

The common stock of SmartPros Ltd. trades on the NASDAQ Capital Market under the symbol SPRO, and warrants SPRO W.

Stock Transfer Agent & Registrar

American Stock Transfer
& Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
(800) 937-5449

The Transfer Agent is responsible for handling shareholder questions regarding lost stock certificates, address changes and changes of ownership or name in which shares are held.

Independent Auditors

Holtz Rubenstein Reminick LLP
125 Baylis Road
Melville, NY 11747

Legal Counsel

Morse, Zelnick, Rose & Lander LLP
405 Park Avenue
Suite 1401
New York, NY 10022

Now listed on NASDAQ

On July 9, 2008, Allen S. Greene, Chairman and Chief Executive Officer of SmartPros Ltd., presided over the opening bell to celebrate the company's listing on the NASDAQ Capital Market. Many members of SmartPros executive management team and board members also attended the event.

NASDAQ: SPRO

2008

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