TRIBEWORKS INC
Form 10QSB
November 17, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark one)

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

For the quarterly period ended September 30, 2006

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

For the transition period from __________ to __________

TRIBEWORKS, INC.
(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware	**94-3370795**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2001 152nd AVENUE NE
REDMOND, WASHINGTON 98052
(Address of Principal Executive Offices)

(425) 458-2360
(Issuer's Telephone Number, Including Area Code)

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

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

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

As of the close of business on November 17, 2006, there were 24,467,805 shares outstanding of the issuer's common stock, par value $0.0004 per share.

Transitional Small Business Disclosure Format: Yes ¨ No þ

TRIBEWORKS, INC.
FORM 10-QSB FOR THE QURATER ENDED SEPTEMBER 30, 2006

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Exhibits

Certification of CEO Pursuant to Rule 13a-14(a)
Certification of CFO Pursuant to Rule 13a-14(a)
Certification of CEO Pursuant to Section 906
Certification of CFO Pursuant to Section 906

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

TRIBEWORKS, INC.
UNAUDITED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2006

		September 30, 2006		December 31, 2005 Restated
Current Assets				
Cash	$	291,688	$	-
Accounts Receivable		48,408		
Prepaid expenses		20,661		-
TOTAL CURRENT ASSETS		360,757		-
Other Assets				
Equipment, net of accumulated depreciation of $92,281		221,816		-
Software Development Costs		312,581		
IT Technology		835,192		
		1,369,589		-
Investment in Atlas				1,073,744
Net Assets of Discontinued Operations				126,282
TOTAL ASSETS	$	1,730,346	$	1,200,026
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	$	568,330	$	-
Income Taxes Payable		5,539		-
Other Loans and Advances		192,991		-
TOTAL CURRENT LIABILITIES		766,860		-
Net Liabilities of Discontinued Operations				784,443
Stockholders' Equity				
Application Monies for new Stock		43,540		417,289
Preferred stock: $.0004 par value, 10,000,000 shares authorized, 84,000 shares issued and outstanding		34		34
Common stock: $.0004 par value, 200,000,000 shares authorized, 24,467,805 (2005 - 21,607,555) shares issued and outstanding		9,787		8,635
Additional paid-in capital		5,770,284		3,681,613
Accumulated deficit		(4,859,833)		(3,691,988)
TOTAL STOCKHOLDERS' EQUITY		963,812		415,583
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	1,730,346	$	1,200,026

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

TRIBEWORKS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
REVENUES	$ 24,734	$ -	$ 24,734	$ -
COST OF SALES	-	-	-	-
GROSS PROFIT	24,734	-	24,734	-
OPERATING EXPENSES				
Product support	—	-	—	-
IT software development	656,130	-	282,034	-
Sales and marketing	80,009	-	35,485	-
General and administrative	654,662	-	278,291	-
	1,390,801	-	595,810	-
INTEREST EXPENSE	1,877	-	(411)	-
OTHER INCOME (EXPENSE)	5,562	-	6,318	-
	7,439	-	5,907	-
INCOME (LOSS) BEFORE INCOME TAXES	(1,358,628)	-	(565,169)	-
INCOME TAXES	1,902	-	1,877	-
NET INCOME (LOSS) AFTER TAXES	(1,360,628)		(567,046)	
Gain on disposal of discontinued assets	192,685		192,685	
NET INCOME (LOSS)				
Continuing Operations	$ (1,360,628)	-	$ (565,046)	-
Discontinued Operations	192,685	$ (26,389)	192,685	$ (69,998)
EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED				
Continuing Operations	$ (0.06)	$ —	$ (0.03)	$ —
Discontinued Operations	$ 0.01	$ (0.02)	$ 0.01	$ (0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	22,329,420	1,569,555	22,329,420	1,569,555

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

TRIBEWORKS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (1,360,628)	$ (102,924)
Adjustments:		
Depreciation and FX adjustments	92,281	-
Gain from discontinued activities	192,685	
Changes in:		
Accounts receivable	25,812	-
Prepaid expenses	(6,859)	-
Accounts payable and accrued expenses	(410,780)	-
Taxes payable	(5,539)	-
Net cash provided by discontinued operations	84,526	(34,924)
Net cash provided (used) by operating activities	(1,388,502)	(137,849)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(89,067)	—
Loan advance	—	(725,672)
Software Development Costs	(312,581)	—
Net cash provided (used) by investing activities	(401,648)	(725,672)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of preferred stock	—	451,000
Proceeds from subscription monies		284,589
Short term loans (net)	181,233	
Increase in note payable		91,474
Proceeds from application monies received and options exercised (net of fees and costs)	1,715,985	—
Net cash provided by discontinued operations	6,821	(137,849)
Net cash provided (used) by financing activities	1,897,218	101,391
NET INCREASE (DECREASE) IN CASH	113,889	(36,458)
CASH, BEGINNING OF PERIOD	177,799	43,729
CASH, END OF PERIOD	$ 291,688	$ 7,271

SUPPLEMENTAL CASH FLOW INFORMATION:

	September 30, 2006	September 30, 2005
Interest paid	$ 3,898	$ Nil
Income taxes paid	$ Nil	$ Nil
NON-CASH TRANSACTIONS:		
Acquisition of IT Technology	$ 835,192	$ Nil

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

TRIBEWORKS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE A — PRINCIPLES OF PRESENTATION AND GOING CONCERN

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

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

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. The Company reported net losses in both 2005 and 2004, had a working capital deficiency of $480,072 and $760,073 for 2004 and 2005, respectively. The Company has reported a further loss of $567,046 for the third quarter of 2006 and at September 30, 2006 and had a working capital deficit of $406,103 for the continuing business with an equity surplus of $963,812. The Company was previously in default on its note payable, but this has been repaid in July 2006. In addition the Company had deferred payment of certain accounts payable and accrued expenses while further new equity capital was raised.

During 2005 the old business of the Company was separated into TDC, and approximately $1 million of new equity capital was raised with the intention of investing in a new business of offsite IT support. On January 20, 2006, the Company acquired AtlasTG as the vehicle to develop this new business and Atlas TG's operations are now included in the financial statements of Tribeworks and statement of operations as from January 2006. Additionally, $457,000 of new equity capital was raised in the first quarter of 2006 in addition to the $400,000 raised in the fourth quarter of 2005 (a total of $857,000), pursuant to a private placement to various accredited investors. In addition, in June 2006 $1,425,000 of new equity (before fees and other expenses) was raised by way of a private placement of 1,140,000 shares at $1.25 per share with an attached two year warrant to purchase a further share at $1.75 for every two shares purchased in the private placement.

Since June 30, 2006 a number of the deferred payables have been paid from this new equity. In addition, TDC has now been sold to its former management on September 14, 2006 and a significant number of the deferred payment obligations were transferred with this business or were released as a result of the sale. The former assets, liabilities and business operations of TDC have been reclassified as discontinued operations in these financial statements.

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

NOTE B — NATURE OF BUSINESS

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

On March 30, 2005, the Company announced that it had determined that this business was insufficient to sustain a viable public company, and that the Company had decided to pursue a plan of reorganization to attempt to increase its scope and profitability. The plan of reorganization that the Board of Directors approved included the transfer of most assets and liabilities (including the accrued salary obligations described in NOTE H) to TDC, one of the Company's operating subsidiaries. TDC was sold on September 14, 2006 and the sale has been reflected in these financial statements.

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

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

AtlasTG is leveraging the recent advances in software, monitoring systems, and communications to build a new, leading edge global support infrastructure, providing 24x7 software support to large and medium sized companies. The new application on-boarding and monitoring processes should allow for dramatic cost savings over existing legacy IT service providers. AtlasTG will offer its services worldwide, with the majority of the targeted customers having multi-national operations. It is intended to be a highly distributable venture, able to place people in the best possible locations, yet offering a seamless service offering across geographies.

AtlasTG continues to test its new software tools and is now beginning to implement its plan of selling software support services, and is pursuing sales in the western USA, the European Union ("EU"), specifically the United Kingdom and Italy. Upon achieving active customers onboard in these initial targeted countries, the company plans to expand its sales efforts worldwide. AtlasTG is initially marketing to four targeted groups of potential clients:

1) Directly to initial Pilot customers, who will serve as beta test opportunities for AtlasTG's systems, software monitoring and incident management systems;

2) Agent companies, who are strategic partners and will represent the company in specific regions in defining strategic Reseller and OnBoarding partners;

3) Onboarding Partners who have the internal capabilities to select and technically audit, harden, stress-test, and document complex software systems, and;

4) Reseller Channel Partners who will be the backbone of AtlasTG's sales strategy. With existing large customer bases of large and complex software systems, Resellers will be provided the advanced Atlas tools and systems to monitor and support highly complex software systems on an ongoing basis.

AtlasTG began actively marketing its software support services on October 1, 2006 and has signed commitments from one Agent in the US, one Agent in the EU, one Onboarding partner in the EU, one Reseller in the EU, and three Pilot customers.

NOTE C — BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The financial statements of the Company are presented on a consolidated basis and include the Company and its wholly owned subsidiaries, TDC, now sold (September 14, 2006), and (since the first quarter of 2006) AtlasTG, which consists of Atlas Technology Group Holdings Limited (formerly TakeCareofIT Holdings Limited), a Malta corporation; TakeCareofIT Limited, a Malta corporation; Atlas Technology Group (NZ) Limited, a New Zealand corporation; and Atlas Technology Group (US) Inc., a United States corporation (collectively referred to herein as AtlasTG). Following the acquisition of AtlasTG the consolidated income statement has included the income and expenses of both the old Tribeworks business and the newly acquired AtlasTG business. As the acquisition of AtlasTG was January 20, 2006, all the 2005 comparative figures relate solely to the old Tribeworks business and in some respects these have been restated to reflect the sale and discontinuance of TDC.

All material intercompany transactions have been eliminated.

Use of Estimates

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

Foreign Currency Translation

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

Net Earnings (Loss) Per Common Share

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

Technology License

The Company’s principal business activity in 2005 and prior years was focused on the commercialization of the iShell® technology, which was developed by a former officer and director of the Company and an affiliate of the Company. In November 1999 the Company purchased all rights, title and interest in iShell® in exchange for $100,000 and warrants to purchase 75,758 shares of common stock at an exercise price of $1.32 per share, valued at $30,000. The $130,000 cost was fully amortized at December 31, 2002. This license has been sold to a former staff member in the third quarter of 2006.

Software Development Costs

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

As a result of the adoption of SFAS 86, $91,723 (as compared to $64,951 in the previous quarter and $155,907 for the quarter ended March 31, 2006) of development costs have been capitalized. These capitalized costs will be amortized over three years from the date on which the new AtlasTG business goes into full commercialization. Not all of the development costs for the period meet the requirements of SFAS 86, and $282,034 ($137,455 in the previous quarter to June 30, 2006) of development costs have been expensed in the period.

The Company's intangible assets are summarized as follows:

	September 30, 2006	Dec 31, 2005
Software Development	312,581	—
IT Technology Acquired	835,192	—
Less: Accumulated Depreciation	—	—
	$ 1,147,773	—

Stock-Based Awards

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

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

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

NOTE D — NOTES PAYABLE

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

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

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

All of these liabilities are included in discontinued operations.

NOTE E — FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTE F — REVERSE STOCK SPLIT

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

NOTE G — COMMON STOCK AND WARRANT ISSUANCE

During the quarter ended September 30, 2006, the Company made no issuances of shares or warrants, but did receive subscription monies towards a new placement of shares for an equity funding now underway with experienced investors.

As at September 30, 2006 and at the date of this report the total number of shares of Common Stock issued and outstanding is 24,467,805. Once the Series B Preferred Stock is converted the fully diluted capital of the Company will consist of 24,551,805 shares of Common Stock.

NOTE H — DEFERRED COMPENSATION ARRANGEMENT, DISPUTE WITH FORMER EMPLOYEE AND SALE OF TDC

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

On April 12, 2006, Robert Davidorf, a former director and officer of the Company, and on that date a director and officer of TDC, resigned. In his letter of resignation, Mr. Davidorf made certain claims for payment of approximately $130,000 in accrued salaries (including $95,388 relating to the above deferred compensation arrangement) and expenses allegedly owed to him. This matter was settled without payment of any extra compensation as part of the sale of the Company's wholly owned subsidiary, Tribeworks Development Corporation ("TDC"), which was completed on September 14, 2006 by way of a sale to 541368 LLC, a California limited liability company, purchasing 100% of the stock of TDC for an aggregate consideration of $100 and the settlement of certain disputes between Tribeworks and certain members of the management of 541368 LLC, who formerly served as the management of Tribeworks and TDC (see above). In addition, Tribeworks agreed to make a one-time cash payment of $44,500 to TDC in full satisfaction of Tribeworks' obligations under an existing Support Agreement dated as of August 1, 2005 between

Tribeworks and TDC, and the Support Agreement was terminated pursuant to the sale agreement. The sale agreement also contained customary representations, warranties, covenants and mutual indemnity provisions.

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The assets and liabilities disposed of from the discontinued operations of TDC at June 30, 2006 (the financial statements used in the sale) are as follows:

Assets:	
Accounts Receivable	108,661
Prepayments	4,291
Computers and equipments, net	811
Total assets	113,763
Liabilities:	
Bank overdraft	14,810
Accounts payable and accruals	373,676
Total Liabilities	388,486

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

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

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

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (hereinafter “SFAS No. 144”). SFAS No. 144 replaces SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.” This standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations to include a “component of an entity” (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity that is classified as held for sale, or has been disposed of, is presented as a discontinued operation if the operations and cash flows of the component will be (or have been) eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component.

In accordance with SFAS No. 144 effective August 1, 2001, the operating results of TDC, which was disposed of during the third quarter of 2006, are included in discontinued operations. Assets and liabilities of TDC have been removed from the financial statements for the period ended September 30, 2006 as sold and restated as net assets and liabilities from discontinued operations for the period ended December 31, 2005.

NOTE I — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

Since the beginning of the second quarter of 2006 the three executive directors of the Company have been paid fees of $10,000 (or in one case 10,000 Euros) each per month in lieu of salary as compensation for their time until contracts are negotiated. In July 2006 a COO, Michael Murphy, was engaged and the three executive directors plus the COO have together been paid a total of $244,758 for the nine months to September 30, 2006.

NOTE J — SUBSEQUENT EVENTS

There have been no material subsequent events to report.

NOTE K — ACQUISITION OF ATLAS TECHNOLOGY GROUP

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

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

The purchase price was allocated as follows:

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

NOTE L - ACCOUNTING CHANGES IN CONNECTION WITH ACQUISITION OF ATLAS

On January 20, 2006, Tribeworks completed the acquisition of 100% of the outstanding shares of AtlasTG. Tribeworks paid $37,235 in cash in consideration to the selling shareholders of AtlasTG.

Following the acquisition of AtlasTG and discontinuance of TDC, the Company has changed certain of its accounting policies as described below. These changes are reflected in the financial statements for the quarter ending September 30, 2006. The Company re-measured the cost of the business acquired by allocating the purchase price of $1,181,015 to the acquired assets, intangibles, and assumed liabilities in accordance with Statements of Financial Accounting Standards No. 141 "Accounting for Business Combinations."

These corrections and restatements (See notes K and H) had the following effect on the reported net loss and earnings per share. Previously the Company had expensed the loan to AtlasTG as software development costs. This has been reclassified as an investment in AtlasTG at December 31, 2005, which reduced the loss at December 31, 2005 from $1,249,535 to $175,791 and as a result the reported net loss per share was reduced from $0.06 to $0.01.

The proforma consolidated statement of operations for the nine months ended September 30, 2006 presented below assumes that the combination occurred at the beginning of the periods presented in the statements. All intercompany accounts and transactions have been eliminated. These proforma financial statements should be read in conjunction with the historical financial statements and notes thereto of Tribeworks and Atlas. The proforma financial statements do not purport to be indicative of the financial positions and results of operations, which actually would have been obtained if the combination had occurred on the dates indicated, or the results, which may be obtained in the future.

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TRIBEWORKS, INC.
Unaudited Statement of Operations
Period Ended September 30, 2005
UNAUDITED PROFORMA

	Tribeworks	AtlasTG	Proforma
	Nine Months Ended September 30,		Combined
	2005	2005	Total
Revenue	$ -	$ -	$ -
Cost of Revenue	-	-	-
Gross Profit	-	-	-
Operating Expenses			
Selling and promotional	-	68,321	68,321
IT software development	-	312,786	312,786
General and administrative	-	198,345	198,345
Total Operating Expenses	-	579,452	579,452
Operating Income (Loss)	-	(579,452)	(579,452)
Other Income (Expenses)			
Interest expense	-	(15,467)	(15,467)
Total Other Income (Expenses)	-	(15,467)	(15,467)
Net Income (Loss) Before Taxes	-	(594,919)	(594,919)
Operating Comprehensive Income (Loss)		(546)	(546)
Income Tax	-	-	-
Net Income (Loss)			
Continuing Operations	-	(595,465)	(595,465)
Discontinued Operations	(26,389)	-	(26,389)
Net Income (Loss) Per Share			
Continuing Operations	$ -	$ (59.47)	$ (0.38)
Discontinued Operations	$ (0.02)	$ -	$ (0.04)
Weighted Average Number of Shares Outstanding	1,569,552	10,000	1,569,552

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

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

- Whether or not our products are accepted by the marketplace and the pace of any such acceptance,
- our ability to attract customers for our new business,

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