

FINDEX COM INC  
Form 10KSB/A  
October 21, 2005

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

**FORM 10-KSB/A  
Amendment No. 3**

(Mark One)

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

For the fiscal year ended December 31, 2004.

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

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

Commission File Number: 0-29963

**FINDEX.COM, INC.**

(Name of Small Business Issuer in its Charter)

Nevada	88-0379462
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

11204 Davenport Street, Suite 100, Omaha, Nebraska	68154
(Address of Principal Executive Offices)	(Zip Code)

(402) 333-1900  
(Issuer's Telephone Number, Including Area Code)

**Securities registered under Section 12(b) of the Exchange Act:**

None

**Securities registered under Section 12(g) of the Exchange Act:**

Common Stock, \$.001 par value  
(Title of Class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Revenues for the fiscal year ended December 31, 2004 totaled \$5,422,097.

As of October 20, 2005, the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average of the closing bid and asked prices on such date was approximately \$2,484,000.

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At October 20, 2005, the registrant had outstanding 48,619,855 shares of common stock, of which there is only a single class.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

Transitional Small Business Disclosure Format (check one):

Yes  No

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**PART I**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Form 10-KSB/A, press releases and certain information provided periodically in writing or orally by our officers or our agents contain statements which constitute forward-looking statements. The words “may”, “would”, “could”, “will”, “expect”, “estimate”, “anticipate”, “believe”, “intend”, “plan”, “goal”, and similar expressions and variations thereof are intended to specifically identify forward-looking statements. These statements appear in a number of places in this Form 10-KSB/A and include all statements that are not statements of historical fact regarding the intent, belief or current expectations of us, our directors or our officers, with respect to, among other things: (i) our liquidity and capital resources, (ii) our financing opportunities and plans, (iii) our ability to attract customers to generate revenues, (iv) competition in our business segment, (v) market and other trends affecting our future financial condition or results of operations, (vi) our growth strategy and operating strategy, and (vii) the declaration and/or payment of dividends.

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include, among others, those set forth in Part II, Item 6 of this annual report on Form 10-KSB/A, entitled Management’s Discussion and Analysis or Plan of Operation, including without limitation the risk factors contained therein. Except as required by law, we undertake no obligation to update any of the forward-looking statements in this Form 10-KSB/A after the date of this report.

**ITEM 1. DESCRIPTION OF BUSINESS.**

**OVERVIEW**

We develop, publish, market, and distribute and directly sell off-the-shelf consumer and organizational software products for PC and PDA platforms. We develop our software products through in-house initiatives supplemented by outside developers. We market and distribute our software products principally through direct marketing and Internet sales programs, but also through secular and non-secular wholesale retailers.

**CORPORATE FORMATION, LEGACY & SUBSIDIARIES**

We were incorporated in the State of Nevada on November 7, 1997 as EJH Entertainment, Inc. On December 4, 1997, a predecessor corporation with the same name as our own but domiciled in Idaho was merged with and into us. Although the predecessor Idaho corporation was without material assets or operations as of the time of the merger, since being organized in 1968, it had historically been involved in mining and entertainment businesses unrelated to our current business.

Beginning in 1997, and although we were not then a reporting company under the Securities Exchange Act, our common stock was quoted on the OTC Bulletin Board (originally under the symbol “TIXX”, which was later changed to “TIXXD”). On May 13, 1999, we changed our name to FINdex.com, Inc. On March 7, 2000, in an effort to satisfy a newly imposed NASD Rule eligibility requirement that companies quoted on the OTC Bulletin Board be fully reporting under the Securities Exchange Act (thereby requiring recently audited financial statements) and current in their filing obligations, we acquired, as part of a share exchange in which we issued 150,000 shares of our common stock, all of the outstanding capital stock of Reagan Holdings, Inc., a Delaware corporation. At the time of this transaction, Reagan Holdings was subject to the requirements of having to file reports pursuant to Section 13 of the Securities Exchange Act, had recently audited financial statements and was current in its reporting obligations. Having no operations, employees, revenues or other business plan at the time, however, it was a public shell company. As a

result of this transaction, Reagan Holdings, Inc. became our wholly-owned subsidiary and we became the successor issuer to Reagan Holdings for reporting purposes pursuant to Rule 12g-3 of the Securities Exchange Act. Shortly thereafter, we changed our stock symbol to "FIND". Though it does not currently have any operations, employees, or revenues, Reagan Holdings remains our wholly-owned subsidiary.

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In addition to Reagan Holdings, we also have one other wholly-owned subsidiary, Findex.com, Inc. (*i.e.* the same name as our own), a Delaware corporation. Like Reagan Holdings, this entity, too, does not currently have any operations, employees, or revenues. This subsidiary resulted from an acquisition on April 30, 1999 pursuant to which we acquired all of the issued and outstanding capital stock of FINdex Acquisition Corp., a Delaware corporation, from its then stockholders in exchange for 4,700,000 shares of our common stock, which, immediately following the transaction, represented 55% of our total outstanding common stock. Our purpose for this acquisition was to broaden our then-existing stockholder base, an important factor in our effort to develop a strong market for our common stock. On May 12, 1999, in exchange for the issuance of 457,625 shares of FINdex Acquisition Corp. common stock, FINdex.com, Inc., another Delaware corporation (originally incorporated in December 1995 as FinSource, Ltd.), was merged with and into FINdex Acquisition Corp., with FINdex Acquisition Corp. remaining as the surviving entity. Our purpose for this merger was to acquire a proprietary financial information search engine for the Internet which was to serve as the cornerstone for a Web-based development-stage business, but which has since been abandoned. As part of the certificate of merger relating to this transaction, FINdex Acquisition Corp. changed its name to FINdex.com, Inc. We currently own 4,700,000 shares of FINdex.com, Inc. (the Delaware corporation), representing 100% of its total outstanding common stock.

## **STRATEGY**

The common thread among our current software products is their target constituency, consumers that share a devotion to or interest in Christianity and faith-based “inspirational” values. Our focus is to become the largest worldwide provider of Bible study and related faith-based software products through ongoing internal development of new products, expansion and upgrade of existing products and strategic product line and/or corporate acquisitions and licensing. Specifically, our development strategy includes:

### **Creating and Maintaining Diversity in Our Product Titles, Platforms and Market Demographic**

We are committed to creating and maintaining a diversified mix of titles and title versions to mitigate our operating risks, and broaden market appeal within our demographic. Therefore, we strive to develop and publish titles and title versions spanning a wide range of categories, including bible study, financial and church management, pastoral products, children’s software and language tutorials. We may also design our software for use on multiple platforms in order to reach a greater potential audience. There are a number of factors that we take into consideration when determining the appropriate platform for each of our titles and title versions, including, amongst others, economic cost, the platform’s user demographics and the competitive landscape at the time of a title or title version’s release.

### **Creating, Acquiring and Maintaining Strong Brands**

We attempt to focus our development and publishing activities principally around software products that are, or have the potential to become, titles and title versions possessing sustainable consumer appeal and brand recognition. To that end, we are continually in pursuit of intellectual property licensing opportunities with respect to software titles and title versions that are strategically aligned with our existing product line and focus. We have entered into a number of such strategic relationships with the owners of various forms of intellectual property which have allowed us to acquire the rights to publish content and develop titles and title versions based upon such intellectual properties. In addition, we may acquire intellectual property licenses in the future for products outside of our current area of focus.

Our development strategy further includes the pursuit of acquisition and related strategic growth opportunities involving other companies that sell faith-based merchandise and services. As part of this strategy, we may acquire businesses that (i) only recently commenced operations, (ii) are development-stage enterprises in need of additional funds to expand into new products or markets, or (iii) are established businesses that may be experiencing financial or operating difficulties and need additional capital. We may also pursue opportunities to acquire assets of other

companies and establish wholly-owned subsidiaries in various businesses or purchase existing businesses as subsidiaries. Furthermore, although we have no current intentions or plans to do so, we have not ruled out the pursuit of transactional opportunities in areas outside the faith-based market demographic.

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Because acquisition and related opportunities may occur in relation to businesses at various stages of development, the task of comparative investigation and analysis of such business opportunities is likely to be extremely difficult and complex. We are also likely to incur significant legal and accounting costs in connection with our pursuit of such opportunities, including the legal fees for preparing acquisition documentation, due diligence investigation costs and the costs of preparing reports and filings with the SEC.

### **Disciplined Product Selection and Development Processes**

The success of our business depends, in significant part, on our ability to develop titles and title versions that will generate appreciable unit volume sales while simultaneously meeting our high quality standards. We use a formal control process for the selection, development, production and quality assurance of our titles and title versions. We apply this process to products under development with external, as well as internal, resources. This control process includes upfront concept evaluation as well as in-depth reviews of each project on numerous levels and at various intervals during the development process by a team that includes our senior management and a number of our key technical, marketing and product development personnel.

### **Internal and External Development Groups**

We develop our titles and title versions using a strategic combination of our internal development group and external, independently contracted developers, a team of which are located in the former Soviet Union and several others of which are located in the United States.

We strive to provide our in-house team the independence and flexibility needed to foster creativity and teamwork. Employing an in-house development team provides us with the following advantages:

- Our developers work collaboratively, sharing development techniques, software tools, software engines and useful experience, to form a strong collective and creative environment;
- The ability to re-focus efforts quickly to meet the changing needs of key projects;
- More control over product quality, scheduling and costs; and
- Our developers are not subject to the competing needs of other software publishers.

In March 2004, we opened an in-house development office in Naperville, Illinois.

We select our external developers based on their track record and expertise in producing titles and title versions within certain categories. This selection process allows us to strengthen and leverage the particular expertise of our internal and external development resources, as well as to scale up and down as necessary, to maximize the productivity of our development budget.

### **PRODUCT DEVELOPMENT**

We are committed to the ongoing development of our existing software as well as the development of new software titles and title versions. Our product development methodology is modeled around elements of the consumer packaged goods and software industry. Within this model, our management assesses the current market and establishes a direction for each of our products, while key personnel monitor quality, delivery schedules, development milestones and budget. Prior to final approval, whether developed internally or externally by our third-party developers, we test all new titles and title versions for bugs.

The development time for a PC-based title or title version is between three and twelve months and the average development cost ranges from \$8,000 to \$450,000. The development time for a PDA-based title or version is between two and six months and the average development cost ranges from \$30,000 to \$250,000. Gross margin percentages for PDA-based software are significantly lower than the gross margin percentages for PC-based software and the manufacturing time is significantly longer than that associated with PC-based software, with lead time for PC-based software at approximately one to three weeks from the placement of an order, as opposed to four to six weeks for PDA-based software.

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**OUR PRODUCTS**

Our focus is to become the largest worldwide provider of Bible study and related faith-based software products. To that end, we utilize a brand structure and market our largest selling titles and title versions under the distinct key brand: QuickVerse® and Membership Plus®. We support this strategy through the regularly scheduled introduction of new titles and title versions featuring this brand. In the twelve months ended December 31, 2004, we released a total of twenty-one titles and title versions for PC and PDA platforms. Through the remainder of fiscal 2005 we currently plan on releasing a total of approximately six titles and title version for PC and PDA platforms, including the introduction of titles and title versions for Macintosh® operating systems beginning in late spring/early summer 2005.

Our faith-based software titles and title versions are currently divided among the following six categories:

- Bible Study
- Financial/Office Management Products for Churches and other Faith-Based Ministries
- Print & Graphic Products
- Pastoral Products
- Children's Products
- Language Tutorial Products.

**Bible Study**

For the fiscal year ended December 31, 2004, approximately 63% of our revenues were derived from sales of our flagship QuickVerse®, an industry-leading Bible-study software now in its 16<sup>th</sup> year and 9<sup>th</sup> version, which is available in an array of content package variations ranging in retail price from \$4.50 to \$299.95. Originally introduced into the market in 1989, QuickVerse® has sold over one million copies since its introduction and is currently believed by us to be the market leader in its category.

QuickVerse® simplifies biblical research, allowing users to view multiple reference materials, including Bibles, dictionaries, commentaries and encyclopedias, side-by-side on the computer screen. A built-in QuickSearch feature enables the user to highlight a word or Bible verse and find all of its occurrences in a particular text. Advanced search options also enable users to search by word, phrase or verse across multiple books. QuickVerse® 2005, our latest version, is currently available in four CD-Rom editions. Each edition of QuickVerse® contains several Bible translations (*e.g.*, the King James Version, the American Standard Version, etc.) along with numerous reference titles (*e.g.*, dictionaries, commentaries, encyclopedias, etc.). The QuickVerse® family of products includes: the QuickVerse® Essentials Edition (which includes 9 Bibles and 40 reference titles), the QuickVerse® Standard Edition (which includes 12 Bibles and 56 reference titles), the QuickVerse® Expanded Edition (which includes 14 Bibles and 95 reference titles), and the QuickVerse® Deluxe Edition (which includes 18 Bibles and 144 reference titles). Each QuickVerse® purchase includes access to additional books and content, which can be unlocked or downloaded and made accessible for an additional fee.

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QuickVerse® PDA, an industry-leading PDA Bible-study software, is compatible on both Pocket PC® and Palm® OS operating systems, and is currently in its 3<sup>rd</sup> year and 2<sup>nd</sup> version. This program provides the same simplified access and many of the personal Bible study features found in the desktop QuickVerse® versions. QuickVerse® PDA is currently available in four editions as a download and in CD-Rom. Each edition of QuickVerse® PDA contains several Bible translations (*e.g.*, the King James Version, the American Standard Version, etc.) along with numerous reference titles (*e.g.*, dictionaries, commentaries, encyclopedias, etc.). The QuickVerse® PDA family of products includes: the Standard Edition (which includes 3 Bibles and 4 reference titles), the Deluxe Edition (which includes 5 Bibles and 6 reference titles), the Life Application Study Bible (which includes 1 Bible and 11 reference titles) and a secular version (which includes 2 Bibles and 4 reference titles). Each edition contains 25 scripture reading plans and provides the user with the ability to create their own.

QuickVerse Left Behind® Series, a New York Times® Best-Selling book series and the newest addition to the QuickVerse® PDA Bible software family, is compatible on both Pocket PC® and Palm® OS operating systems and was released in 2004. This program provides a new way to read, reference, recall, retrieve, note, search, and study fiction and non-fiction. QuickVerse Left Behind® Series is currently available in four editions as a download and in CD-Rom. Each edition contains three volumes from the Left Behind® Series, 1 Bible translation, 4 reference titles and 36 scripture reading plans.

We expect to introduce QuickVerse® Macintosh beginning in late spring/early summer 2005. QuickVerse® Macintosh is compatible with Macintosh® OS X 10.3 or higher operating systems. This program will be available in two editions and provide access to several Bible translations (*e.g.*, the King James Version, the American Standard Version, etc.) along with numerous reference titles (*e.g.*, dictionaries, commentaries, encyclopedias, etc.). The QuickVerse® Macintosh family of products contains numerous Search Panel features, including user-defined book categorization, desktop books, download books, interactive workbooks and daily reading plans, as well as an exclusive Preview Drawer, allowing users to have an unlimited number of books open at any time.

QuickVerse® customers include (i) individuals devoted to or otherwise interested in studying Christianity and (ii) religious and other spiritual organizations including schools, churches and other faith-based ministries. In addition to QuickVerse®, we also develop and market certain other Bible study software packages. These include the Complete Bible Resource Library®, the Book®, The Life Application Bible®, A Walk in the Footsteps of Jesus®, Adam Clark's Commentary on the Bible®, and Dictionaries of the New Testament®. Although our prices are subject to change from time to time, these titles currently range in retail price from \$9.95 to \$99.95 per unit.

### **Financial/Office Management Products for Churches and other Christian Faith-Based Ministries**

For the fiscal year ended December 31, 2004, approximately 28% of our revenues were derived from sales of Membership Plus®, an industry-leading church management software now in its 9<sup>th</sup> version. Membership Plus® is available in each of a standard and a deluxe package at retail prices of \$149.95 and \$349.95 respectively. Each of these product packages provides church database, financial management and church productivity tools, including those designed to streamline church office accounting, tasks and scheduling, track membership and contributions, organize membership databases, and provide efficiency in producing targeted mailings, attendance reports and IRS-compliant contribution receipts. The deluxe package is equipped with a broader functionality and range of features, including, for example, a number of templates for legal agreements frequently used by these types of organizations and a fund based accounting function.

Membership Plus® is designed to serve the unique needs of the churches, “para-church” organizations and ministries, and non-profit entities. The term “para-church” has been developed by the religious community to refer to religious organizations which have some of the characteristics of a church, but which are not what most people would generally consider to constitute a church, including a defined congregation. Some “para-church” organizations are treated as

churches for some reasons, and as religious organizations which are not churches for others. A few examples of a “para-church” organization are Campus Crusade for Christian Ministry Resources, Promise Keepers, and Josh McDowell Ministry.

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Over 80,000 churches and faith-based organizations have purchased Membership Plus® since its introduction in 1990. Membership Plus® 2005, our latest version, is currently available in two CD-Rom editions: Membership Plus® Standard and Membership Plus® Deluxe. We have approximately 50,000 registered users for this product.

### **Print & Graphic Products**

We currently sell/distribute ClickArt Christian Publishing® Suite III, which is a full desktop publishing package containing over 13,000 Christian images, icons, maps, Catholic and Jewish imagery and ethnically diverse, family-oriented illustrations to be used in the creation of a wide range of printed materials including newsletters, bulletins, posters, fliers, mailings, calendars, and reports. We also publish/distribute Religious ClipArt® and Christian Images®. Both of these products are CD-Rom Clipart products that contain faith-based and Christian graphical images that can be used in the production of other content related projects. In addition, we also distribute several titles produced and distributed by International Microcomputer Software, Inc. ("IMSI") a leading developer of software for both professional and home users, including ClipArt & More™ 2.5 Million and QuickStart™ Print Studio Pro Deluxe.

Although our prices are subject to change from time to time, our print and graphic products range in price from \$9.99 to \$39.99 per unit. In the aggregate, and for the fiscal year ended December 31, 2004, 3% of our revenues were derived from sales of these products.

### **Pastoral Products**

We currently produce and distribute/sell a line of pastoral products designed to assist faith-based ministries in streamlining sermon development and research tasks and in organizing responsibilities. These titles include the following:

- Sermon Builder® 4.0 Deluxe, which is a database compilation of illustrations, anecdotes, quotations, proverbs and bits of humor from general topics like children and angels to specific Bible passages, which users can use to bring messages to a congregation or classroom.
- Ministry Notebook® 2.0, which is an organizational tool for users to keep better track of ministry-related paperwork including sermons, prayer requests, personal libraries, telephone contacts, and expense reports.
- Daily Journal®, which is a tool for entry and recordation of personal thoughts, important family and business events.

Although our prices are subject to change from time to time, our pastoral products range in price from \$9.95 to \$49.95 per unit. In the aggregate, and for the fiscal year ended December 31, 2004, 2% of our revenues were derived from sales of these products.

### **Children's Products**

We currently produce and distribute/sell a line of children's CD-Rom products designed to appeal to faith-conscious families interested in spiritually-enriched entertainment and play-along educational content. Collectively, these titles include Jonah and the Whale®, Noah and the Ark®, Daniel in the Lion's Den®, and The Story of Creation®. In addition, we also distribute the Veggie Tales®, a popular line of children's software programs involving interactive adventures with biblical themes.

Although our prices are subject to change from time to time, our children's CD-Rom products range in price from \$5.95 to \$22.98 per unit. In the aggregate, and for the fiscal year ended December 31, 2004, less than 1% of our

revenues were derived from sales of these products.

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### **Language Tutorial Products**

We currently produce tutorial software programs for learning Greek and Hebrew, languages frequently studied in conjunction with a Bible-study curriculum or by biblical scholars. Each of these two programs covers all of the essential language development skills, including letters, vocabulary and grammar. Although our prices are subject to change from time to time, our language tutorial products range in price from approximately \$10.00 to approximately \$69.95 per unit. In the aggregate, and for the fiscal year ended December 31, 2004, 3% of our revenues were derived from sales of these products.

### **Other Products**

In addition to our own software products, we resell certain titles and title versions that we purchase at a discount and that are published by others, including IMSI®, Veggie Tales, and Webroot®. These are non-exclusive, purchase-order only type arrangements in connection with which we carry only limited inventory. Sales from these titles are derived exclusively online through our Website and, apart from on our Website, we do not promote these products. Although prices are subject to change from time to time, these software products range in price from approximately \$5.99 to approximately \$39.99 per unit. In the aggregate, and for the fiscal year ended December 31, 2004, 2% of our revenues were derived from sales of these products.

### **OUR MARKET**

According to a Gallup poll released in March 2004, 49.4% of Americans identified themselves as Protestant, while 23.7% identified themselves as Catholic, and 9.1% identified themselves as “Other Christian”. According to the same survey, more than 60% of Americans say that religion is very important to them in their own lives, and another 24% say that religion is fairly important in their lives.

A survey released in July 2003 by the Christian Bookseller’s Association (“CBA”) indicated that Christian-product sales for the year 2002 were \$4.2 billion. The survey also revealed that \$2.4 billion of the \$4.2 billion total was sold through Christian retail, with \$1.1 billion sold through general retail, and \$725 million sold direct-to-consumer, and through ministry sales channels. The 3,500-store CBA segment includes several different chains, Family Christian Stores being the largest with 325 stores. As faith-based retailing increases, secular stores are offering more faith-based products as evidenced by the \$1.1 billion sales figure in 2002 as reported by the CBA. It is this faith-based demographic that we seek to target.

### **MARKETING AND ADVERTISING**

In developing a marketing strategy for our consumer software products, we seek brands or titles and title versions that we believe will appeal to the interests of our target consumers. We strive to create marketing campaigns which are consistent with this strategy and generally market our software through:

- Our Website ([www.quickverse.com](http://www.quickverse.com)) and the Internet sites of others;
- Print advertising;
- Opt-in e-mail campaigns;
- Product sampling through demonstration software;
- In-store promotions, displays and retailer assisted co-operative advertising;
- Publicity activities; and
- Trade shows.





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**SALES**

**Direct Marketing / Online Sales**

Direct sales accounted for approximately 65% of our 2004 fiscal year revenue. Over the past two years, we have devoted significant and increasing resources to the development of our direct-marketing program. Through this program, we market our products directly to consumers and Church and “para-church” organizations through a combination of direct-mailings and opt-in e-mailings of our product title catalogs and brochures. An important aspect of this initiative is our online sales. In May of 2004, we launched a full-service online store with many of the kinds of features and capabilities that online shoppers have come to expect from cutting-edge Internet retailers. We are currently marketing our products online through multiple sources including our own www.quickverse.com Internet Website, other Internet Websites such as www.amazon.com, as well as several widely used search engines such as Google® and Yahoo®. While we market our products through these other Internet Websites and search engines, we are not substantially dependent upon these marketing relationships and have no written agreements with any one or more of them. The revenue generated from these Internet Websites and search engines, excluding our own www.quickverse.com Internet Website, accounted for less than approximately 1% of our 2004 fiscal year revenue.

We anticipate online orders will continue to increase as we expand our software product base and enhance our marketing efforts in this area.

**Retail Sales**

Retail sales accounted for approximately 35% of our 2004 fiscal year revenue. Our domestic retail sales involve thousands of retail stores across the United States through which our products are sold, many of which are members of the CBA. These stores vary from small, family-owned Christian bookstores to large chain bookstores such as LifeWay Christian Stores, Family Christian Stores® and Berean Christian Stores. We face the continuing challenge of reaching these stores on a consistent basis to keep them informed of new releases, promotional offers, etc. In addition to advertising in trade publications and maintaining visibility at CBA trade shows and events, we believe that it is critical to be in direct personal contact with each customer routinely in order to maintain or increase our market position. Towards that end, our sales representatives are expected to contact each of our customers as well as each of the independent stores that are not yet our customers regularly and present them with the latest in our products and promotions. We believe our personalized approach to marketing provides us with an edge over our competition, which we believe rely predominantly on advertising to maintain and develop their relations with CBA customers.

In the secular retail market, which includes chains such as Best Buy,<sup>TM</sup> CompUSA®, and OfficeMax,<sup>TM</sup> we believe that we continue to be a top seller of Bible study software and we are developing additional product offerings and promotions to grow our market share.

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### **International Sales**

International sales accounted for approximately 2% of our 2004 fiscal year revenue. We currently sell to distributors and retailers in Canada, New Zealand, Australia, Philippines, Hong Kong, the United Kingdom, and Singapore. These distributors and retailers, in turn, sell our products into both Christian and large, secular retail outlets that sell off-the-shelf consumer software packages.

### **Returns and Price Concessions**

At the time we ship our products we establish reserves, including reserves that estimate the potential for future product returns and price concessions. Management makes these estimates and assumptions based on actual historical experience regarding allowances for estimated price concessions and product returns. In determining the percentage of sales for product return reserves, management considers a number of different statistical factors. First, it reviews the rate of actual product returns (in total) for the period. Second, it reviews return rates for the same period(s) of prior years. Third, it reviews its sales by individual retail customers to assess any unusual return exposure. Fourth, it reviews actual return rates of specific title and title versions to determine if there are any unusual trends taking place. Fifth, the potential for an increase in actual returns resulting from upcoming new title or title version releases is reassessed. Sixth, and finally, management reviews the actual returns from the balance sheet date to the date of calculation to determine if anything unexpected has taken place.

We give all of our distributors and retail customers a written product return policy providing for returns, upon written request, within nine months of the invoice date for credit only. If a new title or title version release falls within that nine month time span, a distributor has 60 days from the announced release date to return the old title or title version in exchange for the new title or title version only. We provide our end-user consumers with a 45 day satisfaction guarantee, allowing them to return a title or title version within that time frame if for any reason unsatisfied. Our warranty policy for defective software is to provide replacement or repair for a period of 45 days from the invoice date. We believe that these measurement dates provide a consistent period for assessment and the opportunity to adequately estimate channel inventory levels for appropriately estimating our return reserves.

We generally grant price concessions to our wholesale retail customers when we deem those concessions necessary to maintain our relationships with those retailers and maintain continued access to their retail channel customers. Further, if consumer demand for a specific title falls below expectations or significantly declines below previous rates of wholesale retail sell-through, then a price concession or credit may be requested by our retail customers to spur further retail channel sell-through.

Trends that our returns typically follow include (i) the seasonality of sales, and (ii) the fact that, generally, relatively higher return rates occur during periods of new title or title version releases. Historically, actual returns have been within management's prior estimates, however, we cannot be certain that any future write-offs exceeding reserves will not occur or that amounts written off will not have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations. Management continually monitors and adjusts these allowances to take into account actual developments and sales results in the marketplace. In the past, particularly during title and title version transitions, we have had to increase price concessions to our retail customers.

### **MANUFACTURING AND FULFILLMENT**

We prepare a set of master program copies, documentation and packaging materials for each platform on which a title or title version is available. All of our software products are manufactured through third-party subcontractors, with orders for PC-based titles and title versions generally taking seven to ten days, and reorders taking three to five days. Packaging, printing and assembly are also performed by third-party subcontractors. To date, we have not experienced

any material returns due to product defects.

We currently fulfill all of our direct-to-consumer sales out of our own warehouse located in Omaha, Nebraska and a third-party fulfillment company, also located in Omaha, Nebraska, fulfills our bulk retail sales.

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### **SIGNIFICANT CUSTOMERS AND SUPPLIERS**

During the years ended December 31, 2004 and 2003, we had no major customers that individually accounted for 10% or more of annual sales. As we introduce new and enhanced software titles into the market, we anticipate our sales to a single customer, as a percentage of gross consolidated revenue, will continue to remain below 10%.

Also for the years ended December 31, 2004 and 2003, product and material purchases from IsoDisc accounted for 29% and 3%, respectively, Midlands Packaging Corporation accounted for 18% and 14%, respectively, Frogs Copy and Graphics accounted for 17% and 10%, respectively, MicroBytes, Inc. accounted for 12% and 39%, respectively, and Cedar Graphics accounted for 7% and 17%, respectively, of the total product and material purchases made by us. We currently have no long-term written agreements with any of these suppliers. The payment terms are generally net 30 days, and we are not substantially dependent upon any one or more of them; all are easily replaceable with any locally available supplier.

### **REGULATION**

We are not currently subject to direct regulation by any government agency, other than regulations applicable to businesses generally.

### **COMPETITION**

The market for our products is rapidly evolving and intensely competitive as new software products and platforms are regularly introduced. Competition in the software industry is based primarily upon:

- brand name recognition;
- availability of financial resources;
- the quality of titles;
- reviews received for a title from independent reviewers who publish reviews in magazines, Websites, newspapers and other industry publications;
- publisher's access to retail shelf space;
- the price of each title; and
- the number of titles then available.

We face competition from other software publishers, all of which generally sell through the same combination of channels that we do, including chain store, secular, CBA, direct and online sales.

Specifically, and in relation to our QuickVerse® products, we believe are the market leader in our category. We currently compete with the following companies and products, among others:

- Logos Research Systems, Inc. - Logos Series X®
- BibleSoft, Inc. - BibleSoft PC Bible Study® Version 4
- Thomas Nelson, Inc. - Nelson eBible®
- WordSearch Bible Publishers - WordSearch® 7
- Zondervan - Zondervan Bible Study Library®

Although each of these companies publishes software packages in several different variations, generally in a range that includes a standard package, an expanded package, and a deluxe package (the same way that we do), in each of these respective categories we believe that we tend to be the least expensive but the most comprehensive in terms of the number of Bibles and reference titles included. We believe QuickVerse's® reputation to be among the most

well-respected in its category.

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In relation to our Membership Plus<sup>®</sup> products, we currently compete with the following companies and comparable products, among others:

- ACS Technologies<sup>®</sup>
- CCIS Church Software<sup>®</sup>
- Church Data Master Plus<sup>®</sup>
- Church Windows/Computer Helper<sup>®</sup>
- Church Office<sup>®</sup>
- Logos Management Software<sup>®</sup>
- Power Church Software<sup>®</sup>
- Servant PC<sup>®</sup>
- Shelby Systems<sup>®</sup>
- Shepherd's Staff<sup>®</sup> (Concordia Publishing House)
- Specialty Software<sup>®</sup>

We believe that Membership Plus<sup>®</sup> is the market leader by a margin of over 100% in the church management software publishing category in terms of registered users. Our Membership Plus<sup>®</sup> packages are also among the least expensive products in the category.

We rely upon our product quality, marketing and sales abilities, proprietary technology and product development capability, the depth of our retail distribution channels and management experience to compete in the software industry. Although we believe that we are among the market leaders in each of our two primary product categories, some of our competitors have longer operating histories, larger customer bases and greater financial, marketing, service, support, technical and other resources than we do. Due to these greater resources, certain of our competitors have the ability to undertake more extensive marketing campaigns, adopt more aggressive pricing policies, pay higher fees to licensors and pay more to third-party software developers than we can. Moreover, we believe that competition from new entrants will increase as the market for faith-based products and services expands.

## **INTELLECTUAL PROPERTY**

### **Overview**

We rely for our business on a combination of copyrights, trademarks, and trade secrets to protect our intellectual property. Our copyrighted software content and the brand recognition associated with our related product trademarks are among the most important assets that we possess in our present ability to generate revenues and profits, and we rely very significantly on these intellectual property assets in being able to effectively compete in our market. Our intellectual property rights derive from a combination of licenses from third parties, internal development and confidentiality and non-disclosure agreements.

We cannot be certain that the precautions we have taken will provide meaningful protection from unauthorized use by others. If we must pursue litigation in the future to enforce or otherwise protect our intellectual property rights, or to determine the validity and scope of the proprietary rights of others, we may not prevail and will likely have to make substantial expenditures and divert valuable resources in the process. Finally, we may not have adequate remedies if our proprietary content is appropriated, our proprietary rights are violated or our trade secrets are disclosed.

### **Copyrights**

Our copyrights, some of which have been registered and others of which remain unregistered, derive from a combination of program and source code embodied in software titles that we license from third parties, as well as

program and source code embodied in software titles that we have internally developed on our own.

We entered into a license agreement in June 1999 with Parsons Technology, Inc. which forms the basis of our copyright protection for products that accounted for approximately 97% of our revenues in 2004, including those generated from sales of QuickVerse® and Membership Plus®, by far our two largest selling software titles. A copy of the license that we obtained from Parsons Technology, which has since been assigned to Riverdeep, Inc., the latest licensor-assignee in a succession of assignments by Parsons Technology that have occurred since June 1999, is incorporated by reference into this annual report on Form 10-KSB/A as Exhibit 10.3. At the time, it was acquired as part of a combination of related transactions involving ourselves, Parsons Technology, then a wholly-owned subsidiary of Mattel, Inc., and TLC Multimedia Inc., then also a wholly-owned subsidiary of Mattel, Inc. Aside from the license, the transactions involved an asset sale, a product distribution agreement, and a related services agreement. Taken as a whole, and essentially, we had acquired from TLC Multimedia a software publishing and sales division (known and referred to by many then as the “Parsons Church Group”). In accordance with its terms, we agreed to pay a one-time non-recurring fee of \$5 million to obtain the license, which fee was payable over a subsequent approximate one year period. The related asset sale involved separate consideration.

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The license that we acquired in 1999 provided us with the right, originally for a term of ten years, to publish, use, distribute, sublicense and sell, exclusively worldwide in non-secular channels and non-exclusively (with continuing right retained by Riverdeep, Inc., successor to Parsons Technology) on an unrestricted basis in secular channels, a collection of 65 individual top-selling Christian-related software titles owned by Parsons Technology, including QuickVerse® and Membership Plus®, among others. The license covered a variety of other add-on content titles (*e.g.*, various Bible translations, study guides and sermon preparation tools). The license also included the right for us to modify the programs (including the source code) in order to prepare derivative works and future versions of the programs, and stated that we would exclusively own all rights associated with any such modifications.

Beginning in 2000, we became involved in a series of mediations arising out of or otherwise in connection with the 1999 license. The first of these involved the payment terms of the \$5 million licensing fee. Rather than making payments in accordance with the fee schedule as originally set forth in the agreement, we entered into an arrangement with Parsons Technology's direct sales group whereby we provided resale products and in turn received an offset credit against the balance due under the fee provision in the license. The dispute centered on the amount of product actually resold, and, therefore, the amount of offset credit to which we were entitled. Prior to the resolution of this contest, a second dispute arose, naming Parsons Technology and ourselves, among others, as parties thereto. The first mediation was set aside, and ultimately resolved in conjunction with the latter proceeding as described in the following paragraph.

In October 2001, due to being in arrears with respect to certain royalty payments owed to The Zondervan Corporation then, a content provider to QuickVerse®, we became party to a second mediation ultimately resulting in a multi-party settlement agreement, on October 20, 2003, the terms of which provided for our payment to Zondervan of \$500,000 plus 5% simple interest in installments, as well as for our destruction of all inventory containing Zondervan-owned content, all of which we satisfied within months thereafter. As part of the settlement agreement, we received a covenant in perpetuity with respect to our rights under the 1999 license, effectively extending it indefinitely with no continuing financial obligations owed by us. A copy of the settlement agreement which resulted in the effective extension is incorporated by reference as Exhibit 10.14 to this Form 10-KSB/A for the year ended December 31, 2004.

Since 1999, the developments, including modifications and improvements, that we have made to the originally acquired copyrighted programs covered by the license have been extensive. We have used both in-house developers and third-party contractors in these modifications and improvements over which we retain the exclusive ownership. Given these developments, which have been made through four subsequent versions and seven new editions of QuickVerse®, four subsequent versions and one new edition of Membership Plus®, and various subsequent versions of some of the other titles to which we acquired rights under the license (including those in each of the print and graphics, pastoral, children's, and language tutorial product categories), we believe that the real value of the copyrights associated with these titles lay almost exclusively at this point in the improvements that we own rather than the base copyrights that we were originally granted and that continue to be owned by Riverdeep, Inc. Moreover, it is our belief that the original source code covered by the license has been effectively rendered valueless by virtue of these subsequent modifications and improvements. Although we do not believe that any third parties have been granted any rights to date in addition to our own to publish or sell these titles into secular channels, and do believe that, even if this has occurred or should occur in the future, the barriers to entry created by the extensive developments that we have made and now own to these otherwise licensed titles would make it practically infeasible for any third party to effectively compete with us in relation to these products in any market, there can be no assurance that one or more competitors will not emerge at some point or that they will not impact on our sales and revenues.

As noted above, our largest-selling title, QuickVerse®, is one from which we originally derived our rights under the 1999 license. One of the features that make QuickVerse® such a popular title is its breadth of content. A very significant percentage of this content is licensed by us from various third-party content providers for inclusion in

QuickVerse®. We are therefore responsible for paying royalties on a regular basis to these providers in connection with our sales of QuickVerse®. In total, we currently have content licensing agreements with 45 different publishers for approximately 765 individual Bible translations and other Biblical or related scholarly works which are incorporated in various editions of our QuickVerse® products, or in some cases sold as stand-alone or add-on content. These licensing agreements are typically non-exclusive and for a fixed duration (*e.g.*, a term of 3 or 5 years). Royalties are generally paid within 30 days following the end of a quarter and are calculated as a percentage of net sales from a work (*e.g.*, ranging from 3% to 10% according to the licensing agreements), based upon factors such as value as a stand-alone product as compared to, for example, value when bundled with other titles within a collective work. These license agreements typically cover content in the context of both stand-alone products and as bundled works. For example, consumers who purchase QuickVerse® pay the suggested retail price and are in part paying for the technology within the program along with the content. QuickVerse® titles sold to new consumers or new users are subject to royalties on all content within each specific QuickVerse® title. However, upgrade sales to existing users are only subject to royalties on new content additions of the upgraded version.

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In addition to the copyrights associated with the 1999 license described above, copyright protection exists in relation to the software titles that we resell published by others. These copyrights, however, are held by the publishers and/or their respective third-party content providers.

### **Trademarks**

As part of the 1999 license, we acquired the unlimited right to use the registered trademarks associated with the various titles licensed thereunder exclusively worldwide in non-secular channels and non-exclusively in secular channels. Because of the fact that each of QuickVerse® and Membership Plus® had been on the market for approximately ten years by the time we acquired the license, and each had a substantial existing user base, the trademarks for these products alone were deemed at the time to be of great importance and value. We believe that our initiatives in introducing subsequent versions and editions of these titles since then, as well as our having maintained extremely high publishing standards throughout the period that we have been publishing these titles, have served to sustain and enhance the importance and value of these trademarks.

### **Trade Secrets**

Whenever we deem it important for purposes of maintaining competitive advantages, our policy requires parties with whom we share, or who otherwise are likely to become privy to, our trade secrets or other confidential information, including source code, to execute and deliver to us confidentiality and/or non-disclosure agreements prior to their exposure to any such information. Among others, this includes employees, consultants and other advisors, including our in-house and outsourced software developers and collaborators, each of whom we require to execute such an agreement upon commencement of their employment, consulting or advisory relationships. These agreements generally provide that all confidential information developed or made known to the individual by us during the course of the individual's relationship with us is to be kept confidential and not to be disclosed to third parties except in specific circumstances. In the case of employees and consultants, the agreements provide that all inventions conceived by the individual in the course of their employment or consulting relationship shall be our exclusive property.

### **EMPLOYEES**

As of June 7, 2005, we had twenty-eight full-time employees. Of those twenty-eight, four were part of the senior-level executive and financial management team, five were in the product development team, nine were on the sales team, and ten were in fulfillment, administration, and related support positions. For the fiscal year ended December 31, 2004, our annual payroll was \$1,523,332, equivalent to 26% of gross revenues. In addition, we have engaged the services of several consulting firms who are working full or part-time for us in the area of product development and marketing.

We rely heavily on our current officers and directors in operating the business. We are not subject to any collective bargaining agreements and believe that our relationships with our employees are good.

### **SEASONALITY**

Our business is highly seasonal. More than 50% of our annual sales are expected to occur in the five months of September through January; the five months of April through August are generally our weakest, generating only about 33% of our annual sales.

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**ITEM 2. DESCRIPTION OF PROPERTY.**

Our principal executive offices are located at 11204 Davenport Street, Suite 100, Omaha, Nebraska. We lease this 6,500 square foot premises under a five year lease agreement with 11204, LLC. Our monthly rent is \$7,094.79 and, as of June 7, 2005, there were approximately twenty-three months remaining under the lease.

We maintain additional leased office space in Naperville, Illinois for certain product development activity. We lease this 880 square foot premises under an eighteen month lease agreement with Transwestern Commercial Services. Our monthly rent is \$1,320.00 and there are three months remaining under the lease.

Three of our full-time employees work in home offices located in Cedar Rapids, Iowa. We do not pay for any space associated with these operations.

**ITEM 3. LEGAL PROCEEDINGS.**

In March 2004, a joint settlement was finalized with The Zondervan Corporation and TLC Multimedia, Inc. in connection with then pending litigation surrounding royalties owed by us. Pursuant to the settlement, we were required to make certain payments to The Zondervan Corporation, which obligations, as of July 2004, were satisfied in full. A stipulation of such settlement has since been duly entered and the matter has been discontinued.

As of the date of this report, there were no pending material legal proceedings to which we were a party and we are not aware that any were contemplated. There can be no assurance, however, that we will not be made a party to litigation in the future. Moreover, there can be no assurance that our insurance coverage will prove adequate to cover all liabilities arising out of any claims that may be initiated against us in the future. Any finding of liability imposed against us coupled with a lack of corresponding insurance coverage is likely to have an adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations.

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

On October 15, 2004, we filed a definitive information statement on Schedule 14C with the SEC. The information statement was mailed to our stockholders on or about October 18, 2004 solely for the purpose of informing our stockholders of the approval and unanimous consent by our board of directors, and the affirmative vote on September 9, 2004 of the holders of a majority of the voting power to take the following action:

(i) amend our articles of incorporation to increase our authorized shares of common stock from 50,000,000 to 120,000,000 shares; and

(ii) ratify the designation of our incumbent directors among the three classes of directors.

Of our 46,153,189 common shares issued and outstanding at the time, the affirmative vote of the holders of a majority of our voting power was required to approve the amendment and to ratify the designation. Both the amendment and the ratification of designation received the approval of holders owning 32,307,090 shares of our common stock, representing 70% of our then total issued and outstanding common stock (51.97% after adjustment for certain voting restrictions set forth in our articles of incorporation), each by written consent as permitted by the Nevada Revised Statutes and our bylaws. The action approved by the consenting stockholders became effective on November 8, 2004, which was 20 days after we mailed the information statement to our stockholders. The amendment to our articles of incorporation was filed and effective with the Secretary of State of Nevada on November 10, 2004. We did not solicit proxies to vote at a stockholders' meeting in connection with either the amendment or the ratification.

No other matters were submitted to a vote of our stockholders during the fourth quarter of the fiscal year ended December 31, 2004.

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Table of Contents**PART II****ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.****RECENT SALES OF UNREGISTERED SECURITIES**

<b>Date Securities Issued</b>	<b>Securities Title</b>	<b>Issued To</b>	<b>Number of Securities Issued</b>	<b>Consideration *</b>	<b>Footnotes</b>
<b>Common Stock Issuances</b>					
12/31/04	Common Stock	Business Investor Services, Inc. 2030	466,666	\$ ---	2B
11/16/04	Common Stock	Investors, LLC	1,000,000	\$ ---	2B
11/16/04	Common Stock	C. James Jensen	1,000,000	\$ ---	2B
<b>Common Stock Warrant Issuances</b>					
11/10/04	Common Stock	Barron Partners, LP	10,937,500	\$ 576,042	1A
11/10/04	Common Stock	Barron Partners, LP	10,937,500	\$ 576,042	1A
<b>Convertible Promissory Note Issuances</b>					
09/30/04	Common Stock	2030 Investors, LLC	1,000,000	\$ 120,000	1A
09/30/04	Common Stock	C. James Jensen	1,000,000	\$ 120,000	1A

\* Consideration is calculated to be the value of the security at the date of issuance.

1. Stock issued in connection with issuances of stock, warrants, and/or convertible debt.
2. Stock issued in connection with conversion of a promissory note.

A. We relied in each case for these unregistered sales on the private offering exemption of Section 4(2) of the Securities Act and/or the private offering safe harbor provision of Rule 506 of Regulation D promulgated thereunder based on the following factors: (i) the number of offerees or purchasers, as applicable, (ii) the absence of general solicitation, (iii) representations obtained from the acquirors relative to their accreditation and/or sophistication (or from offeree or purchaser representatives, as applicable), (iv) the provision of appropriate disclosure, and (v) the placement of restrictive legends on the

certificates reflecting the securities coupled with investment representations obtained from the acquirors.

B. We relied on Section 3(a)(9) of the Securities Act as the basis for our exemption from registration of these offerings.

There were no underwriters or placement agents involved in any of the issuances set forth above and no commissions were paid.

## MARKET INFORMATION

Our common stock is traded on the OTC Bulletin Board, a service provided by the Nasdaq Stock Market Inc., under the symbol, "FIND".

The following table sets forth for the periods indicated the high and low bid prices for our common stock as reported each quarterly period within the last two fiscal years on the OTC Bulletin Board, and as obtained from BigCharts.com. The prices are inter-dealer prices, do not include retail mark-up, markdown or commission and may not necessarily represent actual transactions.

	<b>Common Stock</b>	
	<b>High</b>	<b>Low</b>
<b>2003</b>		
First Quarter	\$0.024	\$0.022
Second Quarter	\$0.080	\$0.022
Third Quarter	\$0.070	\$0.010
Fourth Quarter	\$0.040	\$0.025
<b>2004</b>		
First Quarter	\$0.055	\$0.020
Second Quarter	\$0.400	\$0.018
Third Quarter	\$0.250	\$0.090
Fourth Quarter	\$0.190	\$0.060

Table of Contents**STOCKHOLDERS**

As of June 6, 2005, there were approximately 800 holders of record of our common stock, with any shares held by persons or companies in street or nominee name counted only under such street or nominee name.

**DIVIDENDS**

During the last two years, no dividends have been paid on our common stock and we do not anticipate paying any dividends in the foreseeable future. Although it is our intention to utilize all available funds for the development of our business, no restrictions are in place that would limit or restrict our ability to pay dividends.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS****EQUITY COMPENSATION PLAN INFORMATION**

	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity compensation plans approved by security holders	910,000	\$0.11	590,000
Equity compensation plans not approved by security holders	2,800,000	\$0.0879	---
<b>Total</b>	<b>3,710,000</b>	<b>\$0.0933</b>	<b>590,000</b>

Our 1999 Stock Incentive Plan authorizes the issuance of various forms of stock-based awards including incentive and nonqualified stock options, stock appreciation rights attached to stock options, and restricted stock awards to our directors, officers and other key employees. The plan has been approved by our stockholders and as such, provides certain income tax advantages to employees as provided under Sections 421, 422, and 424 of the Internal Revenue Code. Stock options are granted at an exercise price as determined by our board at the time the option is granted and may not be less than the par value of such shares of common stock. Stock options vest quarterly over three years and have a term of up to ten years. The plan authorizes an aggregate of 1,500,000 shares of common stock that may be issued.



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In addition, we issue various forms of stock-based awards including nonqualified stock options and restricted stock awards to directors, officers, other key employees and third-party consultants, outside of the Stock Incentive Plan. Awards granted outside of the plan have been granted pursuant to equity compensation arrangements that have not been approved by our stockholders. These awards are granted at an exercise price as determined by our board at the time of grant and are not less than the par value of such shares of common stock. Stock options granted outside of the plan vest as determined by our board at the time of grant and have a term of up to ten years. Non-employee directors, though treated as employees for financial reporting purposes under Financial Accounting Standards Board Interpretation No. 44, are excluded from the income tax advantages afforded employees by the Internal Revenue Code.

All issued options, whether under the plan or not, create the obligation for stock issuance at the established exercise price.

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**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

The following discussion should be read together with our consolidated financial statements for the period ended December 31, 2004 and the notes to the consolidated financial statements.

**CRITICAL ACCOUNTING POLICIES**

Our critical accounting policies, including the assumptions and judgments underlying them, are more fully described in the Notes to the Financial Statements. We have consistently applied these policies in all material respects. These policies primarily address matters of expense recognition and revenue recognition, including amortization of software development cost and the calculation of reserve for returns. Investors are cautioned that these policies are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially. Below are the accounting policies that we believe are the most critical in order to gain an understanding of our financial results and condition.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Significant estimates used in the consolidated financial statements include the estimates of (i) doubtful accounts, sales returns, price protection and rebates, (ii) provision for income taxes and realizability of the deferred tax assets, (iii) the life and realization of identifiable intangible assets, and (iv) provisions for obsolete inventory. The amounts we will ultimately incur or recover could differ materially from current estimates.

*Royalty Agreements*

We have entered into certain agreements whereby we are obligated to pay royalties for content of software published. We generally pay royalties based on a percentage of sales on respective products or on a fee per unit sold basis. We expense software royalties as product costs during the period in which the related revenues are recorded.

*Accounts Receivable*

Accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable quarterly, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. Individual accounts are charged against the allowance when they are deemed uncollectible.

*Inventory*

Inventory, including out on consignment, consists primarily of software media, manuals and related packaging materials and is recorded at the lower of cost or market value, determined on a first-in, first-out, and adjusted on a per-item, basis.

*Intangible Assets*

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, intangible assets with an indefinite useful life are not amortized. Intangible assets with a finite useful life are amortized on the straight-line method over the estimated useful lives. All intangible assets are tested for impairment annually during the fourth quarter.



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***Software Development Costs***

In accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, software development costs are expensed as incurred until technological feasibility and marketability has been established, generally with release of a beta version for customer testing. Once the point of technological feasibility and marketability is reached, direct production costs (including labor directly associated with the development projects), indirect costs (including allocated fringe benefits, payroll taxes, facilities costs, and management supervision), and other direct costs (including costs of outside consultants, purchased software to be included in the software product being developed, travel expenses, material and supplies, and other direct costs) are capitalized until the product is available for general release to customers. We amortize capitalized costs on a product-by-product basis. Amortization for each period is the greater of the amount computed using (i) the straight-line basis over the estimated product life (generally from 12 to 18 months), or (ii) the ratio of current revenues to total projected product revenues.

Capitalized software development costs are stated at the lower of amortized costs or net realizable value. Recoverability of these capitalized costs is determined at each balance sheet date by comparing the forecasted future revenues from the related products, based on management's best estimates using appropriate assumptions and projections at the time, to the carrying amount of the capitalized software development costs. If the carrying value is determined not to be recoverable from future revenues, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the future revenues.

SFAS No. 2, *Accounting for Research and Development Costs*, establishes accounting and reporting standards for research and development. In accordance with SFAS No. 2, costs we incur to enhance our existing products after general release to the public (bug fixes) are expensed in the period they are incurred and included in research and development costs.

We capitalize costs related to the development and maintenance of our Website in accordance with Financial Accounting Standard Board's ("FASB's") Emerging Issues Task Force ("EITF") Issue No. 00-2, *Accounting for Website Development Costs*. Under EITF Issue No. 00-2, costs expensed as incurred are as follows:

- planning the Website,
- developing the applications and infrastructure until technological feasibility is established,
- developing graphics such as borders, background and text colors, fonts, frames, and buttons, and
- operating the site such as training, administration and maintenance.

Capitalized costs include those incurred to:

- obtain and register an Internet domain name,
- develop or acquire software tools necessary for the development work,
- develop or acquire software necessary for general Website operations,
- develop or acquire code for web applications,
- develop or acquire (and customize) database software and software to integrate applications such as corporate databases and accounting systems into web applications,
- develop HTML web pages or templates,
- install developed applications on the web server,
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- create initial hypertext links to other Websites or other locations within the Website, and
- test the Website applications.

We amortize Website development costs on a straight-line basis over the estimated life of the site, generally 36 months.

### ***Revenue Recognition***

We derive revenues from the sale of packaged software products, product support and multiple element arrangements that may include any combination of these items. We recognize software revenue for software products and related services in accordance with American Institute of Certified Public Accountants Statement of Position (“SOP”) 97-2, *Software Revenue Recognition*, as modified by SOP 98-9, *Modification of SOP 97-2, With Respect to Certain Transactions*. We recognize revenue when persuasive evidence of an arrangement exists (generally a purchase order), we have delivered the product, the fee is fixed or determinable and collectibility is probable.

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In some situations, we receive advance payments from our customers. We defer revenue associated with these advance payments until we ship the products or offer the support.

In accordance with EITF Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Product*, we generally account for cash considerations (such as sales incentives - rebates and coupons) that we give to our customers as a reduction of revenue rather than as an operating expense.

We reduce product revenue for estimated returns and price protections that are based on historical experience and other factors such as the volume and price mix of products in the retail channel, trends in retailer inventory and economic trends that might impact customer demand for our products. We also reduce product revenue for the estimated redemption of end-user rebates on certain current product sales. Our rebate reserves are estimated based on the terms and conditions of the specific promotional rebate program, actual sales during the promotion, the amount of redemptions received and historical redemption trends by product and by type of promotional program.

We record the amounts we charge our customers for the shipping and handling of our software products as product revenue and we record the related costs as cost of sales on our consolidated statements of operations.

### ***Income Taxes***

We utilize SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

### **RESULTS OF OPERATIONS FOR YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2003**

Our income before taxes decreased approximately \$1,233,000 from an income of approximately \$1,473,000 for the twelve months ended December 31, 2003 to an income of approximately \$240,000 for the twelve months ended December 31, 2004. This decrease is a result of the following items. For the twelve months ended December 31, 2003, we wrote down accrued royalties of approximately \$584,000 and wrote off a note payable of approximately \$650,000 and the interest associated with the note of approximately \$217,000. Both of these write down items are included in other income. We also wrote down a distinct category of obsolete inventory of approximately \$61,000, which is included in cost of sales. For the twelve months ended December 31, 2004, we wrote down the reserve for rebates payable from a change in accounting estimate of approximately \$142,000 and wrote down actual rebates payable of approximately \$61,000 due to an overstatement. Both of these write down items are recognized as an adjustment to revenue. We also wrote down a distinct category of obsolete inventory of approximately \$32,000 which is included in cost of sales, and incurred an expense of approximately \$155,000 related to a settlement with an institutional private equity investor which is included in other adjustments. Furthermore, for the twelve months ended December 31, 2004, we recognized approximately a \$1,000,000 gain from extinguishment of debt which is classified as other income. The extinguishment of debt is a direct result from settling with various vendors and content providers for lump-sum payments at a reduced amount of balances owed.

Non-cash expenses related to shares of common stock issued for services increased by approximately \$126,000. For the year ended December 31, 2004, we recognized approximately \$149,000 in non-cash expenses related to shares of common stock and warrants issued for services and approximately \$30,000 in non-cash expenses related to shares of common stock issued in a settlement agreement. Comparatively, for the year ended December 31, 2003, we recognized expenses of approximately \$53,000 relating to shares of common stock issued for services. Overall, interest expense for the twelve months ended December 31, 2004 decreased by approximately \$45,000 compared to

2003. This is due to our reducing trade payables and meeting the scheduled terms. Furthermore, the note liabilities interest was reduced due in part to the reclassification of the note payable in the fourth quarter of 2003. Amortization expense for the twelve months ended December 31, 2004 increased by approximately \$15,000 compared to 2003. This reflects the continual amortization of the software license along with the amortization for the launch of our Website, www.quickverse.com, during the second quarter of 2004. Amortization expense related to software development costs, which is included in cost of sales, increased approximately \$220,000 for the twelve months ended December 31, 2004 compared to 2003. This is a direct result from QuickVerse® 8.0 shipping in late December 2003, Membership Plus® 8.0 shipping in January 2004, QuickVerse® PDA 2005 shipping in September 2004, and QuickVerse® 2005 shipping in early December 2004.

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*Revenues*

We derive revenues from the sale of packaged software products, product support and multiple element arrangements that may include any combination of these items. Revenue is recognized when persuasive evidence of an arrangement exists (generally a purchase order), we have delivered the product, the fee is fixed or determinable and collectibility is probable. For our packaged software products, we typically recognize revenue from the sale when we ship the product. We sell some of our products on consignment to a limited number of resellers. We recognize revenue for these consignment transactions only when the end-user sale has occurred. Service revenue resulting from technical support plans is recognized over the life of the plan which is generally one year. Revenue associated with advance payments from our customers is deferred until we ship the product or offer the support service. Revenue for software distributed electronically via the Internet is recognized when the customer has been provided with the access codes that allow the customer to take immediate possession of the software on its hardware and evidence of the arrangements exists. For revenue arrangements involving multiple products or products and services, we allocate and defer revenue for the undelivered products or products and services based on their vendor-specific objective evidence of fair value, which is generally the price charged when that product or product and service is sold separately.

We reduce product revenue for estimated returns and price protections that are based on historical experience and other factors such as the volume and price mix of products in the retail channel, trends in retailer inventory and economic trends that might impact customer demand for our products. Estimated returns are also based upon a percentage of total retail and direct sales. Direct sales accounted for approximately 65% of our 2004 fiscal year revenue. We account for cash considerations (such as sales incentives - rebates and coupons) that we give our customers as a reduction of revenue rather than as an operating expense. Product revenue is also reduced for the estimated redemption of end-user rebates on certain current product sales. We did not have any rebate programs during the twelve months ended December 31, 2003 and 2004, respectively.

Trends that our returns typically follow include (i) the seasonality of sales, and (ii) the fact that, generally, relatively higher return rates occur during periods of new title or title version releases. Historically, actual returns have been within management's prior estimates, however, we cannot be certain that any future write-offs exceeding reserves will not occur or that amounts written off will not have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations. Management continually monitors and adjusts these allowances to take into account actual developments and sales results in the marketplace. In the past, particularly during title and title version transitions, we have had to increase price concessions to our retail customers.

Product returns from distributors and Christian bookstores are allowed primarily in exchange for new products or for credit towards purchases as part of a stock-balancing program. These returns are subject to certain limitations that may exist in the contract in each case. Under certain circumstances, such as termination or when a product is defective, distributors and bookstores could receive a cash refund if returns exceed amounts owed. Returns from sales made directly to the consumer are accepted within 45 days of purchase and are issued a cash refund. Product returns, price protections or price concessions that exceed our reserves could materially adversely affect our business and operating results and could increase the magnitude of quarterly fluctuations in our operating and financial results.

Software products are sold separately, without an obligation of future performance such as upgrades, enhancements or additional software products, and are sold with post contract customer support services such as customer service and technical support assistance. In connection with the sale of certain products, we provide a limited amount of free technical support assistance to our customers. We do not defer the recognition of any revenue associated with sales of these products, since the cost of providing this free technical support is insignificant. The technical support is provided within one year after the associated revenue is recognized and free product enhancements (bug fixes) are minimal and infrequent. We accrue the estimated cost of providing this free support upon product shipment and include it in cost of sales.





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Shipping and handling costs in connection with our software products are expensed as incurred and included in cost of sales.

<b>Twelve Months Ended December 31</b>	<b>2004</b>	<b>% to Gross Sales</b>	<b>2003</b>	<b>% to Gross Sales</b>	<b>Change</b>	<b>%</b>
Gross sales	\$ 5,786,427	100 %	\$ 4,787,545	100 %	\$ 998,882	21%
Add rebate adjustments	203,313	4 %	170,154	4 %	33,159	19%
Less reserve for sales returns and allowances	(567,643)	(10 %)	(396,788)	(8 %)	(170,855)	43%
Net sales	\$ 5,422,097	94 %	\$ 4,560,911	96 %	\$ 861,186	19%

Gross revenues increased approximately \$999,000 from approximately \$4,788,000 for the year ended December 31, 2003 to approximately \$5,787,000 for the year ended December 31, 2004. Such increase is due to our release of an enhanced version of Membership Plus<sup>®</sup>, during the first quarter of 2004 and an enhanced version of QuickVerse<sup>®</sup>, during the fourth quarter of 2004. However, delays in duplication, packaging and distribution caused our QuickVerse<sup>®</sup> 2005 to begin shipping in early-December 2004, long after the holiday season had been underway. Due to these delays, we believe we experienced reduced revenues of approximately \$500,000 for the year ended December 31, 2004. In addition to the QuickVerse<sup>®</sup> and Membership Plus<sup>®</sup> releases, there were several other new product releases in the year 2004 such as an enhanced version of our QuickVerse<sup>®</sup> PDA. However, the retail value of the products ranged from \$9.95 to \$59.95 compared to \$99.95 to \$349.95 for the QuickVerse<sup>®</sup> and Membership Plus<sup>®</sup> titles. During the year 2003, we only had one major product release, QuickVerse<sup>®</sup> 8.0, which shipped in late December 2003. During the years of 2003 and 2004, our sales efforts were focused on targeting end-users through telemarketing and Internet sales. These efforts resulted in more consistent sales during the two years. Sales into the retail market (both CBA and secular) continue to increase; however, they are not back to the levels of 1999 and 2000.

Sales returns and allowances increased approximately \$171,000 from approximately \$397,000 for the year ended December 31, 2003 to approximately \$568,000 for the year ended December 31, 2004 and increased as a percentage of gross sales from approximately 8% for the year ended December 31, 2003 to approximately 10% for the year ended December 31, 2004. The upward trend in sales returns and allowances as a percentage is attributable to our release of enhanced versions of QuickVerse<sup>®</sup> and Membership Plus<sup>®</sup> in late December of 2003 and January of 2004, respectively. The release of these two enhanced products resulted in an increased quantity of sales returns and allowances of prior versions as distributors and stores made shelf space during the first quarter of 2004. Furthermore, the release of QuickVerse<sup>®</sup> 8.0 in late December of 2003 was the only enhancement to the product within a three year timeframe. We released QuickVerse<sup>®</sup> 2005 earlier in the fourth quarter of 2004 with only an eleven month difference from the last enhancement. Due to the earlier release, we anticipated stores would have more time to return the previous version of QuickVerse<sup>®</sup> than compared to a year ago. Product returns during the other quarters were consistent. We anticipate the sales return and allowances as a percentage to follow a downward trend due to our focused sales efforts to the end-users and our decreased presence in the retail market, because incidents of return are lower for sales direct to the end-user than sales into the retail stores. We also wrote down a reserve for rebates payable due to a change in accounting estimate of approximately \$142,000 and approximately \$124,000 and wrote down actual rebates payable due to an overstatement of approximately \$61,000 and approximately \$46,000, both of which are included as an adjustment to revenue in accordance with EITF Issue No. 01-09 for the twelve months ended December 31, 2004 and 2003, respectively.

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<b>Twelve Months Ended December 31</b>	<b>2004</b>	<b>% to Gross Sales</b>	<b>2003</b>	<b>% to Gross Sales</b>	<b>Change</b>	<b>%</b>
Direct costs	\$ 579,946	10%	\$ 539,595	11%	\$ 40,351	7%
Amortization of software development costs	575,480	10%	355,283	7%	220,197	62%
Royalties	417,604	7%	264,050	6%	153,554	58%
Fulfillment	74,889	1%	43,375	1%	31,514	73%
Freight-out	172,634	3%	125,680	3%	46,954	37%
Cost of sales	\$ 1,820,553	31%	\$ 1,327,983	28%	\$ 492,570	37%

Cost of sales consists primarily of royalties to third-party providers of intellectual property and the direct costs and manufacturing overhead required to reproduce, package, fulfill and ship the software products. Direct costs and manufacturing overhead also include the amortized software development costs and the non-capitalized technical support wages. The direct costs and manufacturing overhead increased from 22.2% of gross revenues in 2003 to 24.3% of gross revenues in 2004. The increase resulted directly from amortization of software development costs. The amortization recognized during the twelve months ended December 31, 2003 resulted from several new software releases in 2003 including the then newly released QuickVerse® 8.0. However, the shorter timeframe between our product upgrades during the year of 2004 led to an increased amount of amortization recognized. During the twelve months ended December 31, 2004 we continued to amortize the costs associated with QuickVerse® 8.0 along with the newly released Membership Plus® 8.0, the updated release of QuickVerse® PDA 2005 and the release of QuickVerse® 2005. Fulfillment costs from a third-party warehouse and included in the manufacturing overhead costs noted above, increased approximately \$32,000 as we released three major product upgrades beginning late December 2003 through December 2004. Furthermore, the direct costs and manufacturing overhead include the write downs of obsolete inventory of approximately \$61,000 and approximately \$32,000 for the twelve months ended December 31, 2003 and 2004, respectively. The direct costs and manufacturing overhead percentage is expected to continue at the 2004 levels as working capital remains more consistent and as more development projects are implemented in a shortened timeframe.

Royalties to third-party providers of intellectual property also increased from 5.5% of gross revenues in 2003 to 7.2% of gross revenues in 2004. The increase of royalties reflects the release of the QuickVerse® 8.0 editions in late December 2003 and the release of the QuickVerse® 2005 editions in early December 2004. Furthermore, we sold some of the older QuickVerse® versions to liquidators at a reduced price throughout the year but had no such sales during the year ended 2003. During the year ended 2004, we also renegotiated several royalty contracts which resulted in some cases in a higher royalty rate along with access to more content. The royalty rate as a percentage of gross sales is expected to increase in the future as the new QuickVerse® 2005 is released into the retail market and sales to new users are expected to increase significantly. However, upgrade sales will continue to be subject to royalties only on content additions of the upgraded version.

Software development costs are expensed as incurred as research and development until technological feasibility and marketability have been established, at which time development costs are capitalized until the software title is available for general release to customers. Software development is segregated by title and technology platform. Once a product has been successfully released, subsequent revisions and upgrades are considered development and the costs of the revision and upgrade are capitalized. Capitalized costs are amortized on a product-by-product basis using the greater of straight-line amortization over the estimated life of the product or the ratio of current revenues from the product to the total projected revenue over the life of the product. Generally, we consider technological feasibility to

have been established with the release of a beta version for testing. Software development costs are summarized in the table below. The software development costs, consisting primarily of direct and indirect labor and related overhead charges, capitalized during the twelve months ended December 31, 2003 and 2004 were approximately \$659,000 and approximately \$692,000, respectively. Accumulated amortization of these development costs included in cost of sales totaled approximately \$355,000 and approximately \$575,000 for the twelve months ended December 31, 2003 and 2004, respectively. The increase in both the capitalization and amortization is a direct result of the increase in the number of development projects.

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<b>Twelve Months Ended December 31</b>	<b>2004</b>	<b>2003</b>
Beginning balance	\$ 584,706	\$ 280,502
Capitalized	692,063	659,487
Amortized (cost of sales)	575,480	355,283
Ending balance	\$ 701,289	\$ 584,706
Research and development expense (General and administrative)	\$ 64,653	\$ 128,159

*Sales, General and Administrative*

<b>Twelve Months Ended December 31</b>	<b>2004</b>	<b>% to Gross Sales</b>	<b>2003</b>	<b>% to Gross Sales</b>	<b>Change</b>	<b>%</b>
<b>Selected expenses:</b>						
Commissions	\$ 814,623	14%	\$ 570,381	12%	\$ 244,242	43%
Advertising and direct marketing	455,238	8%	240,062	5%	\$ 215,176	90%
Marketing and customer service	10,900	0%	5,511	---	\$ 5,389	98%
<b>Total sales and marketing</b>	<b>1,280,761</b>	<b>22%</b>	<b>815,954</b>	<b>17%</b>	<b>\$ 464,807</b>	<b>57%</b>
Research and development	64,653	1%	128,159	3%	\$ (63,506)	-50%
Personnel costs	1,310,506	23%	986,165	21%	\$ 324,341	33%
Legal	71,003	1%	77,037	2%	\$ (6,034)	-8%
Rent	75,555	1%	51,039	1%	\$ 24,516	48%
Telecommunications	149,443	3%	79,558	2%	\$ 69,885	88%
Corporate services	94,000	2%	---	---	\$ 94,000	-
Other general and administrative costs	544,678	9%	429,276	9%	\$ 115,402	27%
<b>Total general and administrative</b>	<b>2,309,838</b>	<b>40%</b>	<b>1,751,234</b>	<b>37%</b>	<b>\$ 558,604</b>	<b>32%</b>

Operating expenses for 2004 include approximately \$149,000 in non-cash expenses related to shares of common stock and warrants issued for services and approximately \$30,000 in non-cash expenses related to shares of common stock issued in a settlement agreement compared with approximately \$53,000 for 2003. With gross revenues increasing approximately \$999,000 from 2003 to 2004, sales expenses also increased approximately \$465,000 from approximately \$816,000 for 2003 to approximately \$1,281,000 for 2004. Included in sales expenses, commissions to a third-party telemarketing firm increased approximately \$244,000 as our sales focus to the direct consumer increased along with the number of new and enhanced product releases during 2004 compared with that of 2003; advertising, and direct marketing increased approximately \$215,000 as we launched a full-service online store, began marketing our products online through multiple sources, attended more retail conferences, and increased the number of new product upgrades throughout the year; and marketing and customer service costs increased approximately \$5,000 as our sales efforts continue to be more focused towards the consumer instead of the retail store.

Research and development costs include salaries and benefits of personnel and third parties conducting research and development of software products. Software development costs expensed as research and development (see table above) amounted to approximately \$65,000 for the twelve months ended December 31, 2004 compared to

approximately \$128,000 incurred for the twelve months ended December 31, 2003. The decrease in 2004 reflects further development of existing products whereas in 2003 we had more research and development costs associated with new titles such as QuickVerse® PDA for both Pocket PC® and Palm OS® operating systems. Research and development expenses are expected to increase in future periods as we add new products and versions to our product mix.

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Personnel costs increased approximately \$325,000 from approximately \$986,000 for the twelve months ended December 31, 2003 to approximately \$1,311,000 for the twelve months ended December 31, 2004. This increase is primarily from the increase in our sales and marketing team and technical support staff and the associated health care costs. We also recognized approximately \$14,000 of expense related to 635,000 restricted shares of common stock issued to employees and approximately \$67,000 in expense for upper management year-end bonus accrual. Furthermore, the capitalization of direct and indirect labor and related overhead charges as software development costs and the cost of providing free technical support to our customers (see "Cost of Sales" above) decreased by approximately \$23,000 from approximately \$557,000 for the twelve months ended December 31, 2003 to approximately \$534,000 for the twelve months ended December 31, 2004. This decrease is due to the shortened development time period for the new development projects that began during the year 2004. It is anticipated that personnel costs will continue to increase in future periods as operating capital is available to fund full staffing of our product development team and expansion of the direct marketing staff. In addition, interest and penalty fees related to back payroll taxes increased approximately \$95,000 for the twelve months ended December 31, 2004.

Direct legal costs increased approximately \$38,000 for the twelve months ended December 31, 2004 as the disputes with TLC and Zondervan were finalized in March 2004. However, approximately \$44,000 of legal costs were related to the stock offering costs incurred in July 2004 and the related preparation of a 14C information statement and SB-2 registration statement; and therefore was recorded as a reduction to additional paid-in capital. It is anticipated that legal costs will increase as we hold our first annual meeting of stockholders later this year and pursue our business plan for growth by acquiring companies and software title properties that are synergistic with our current product line and customer base. Rent expense increased approximately \$25,000 as we opened a new product development facility located in Naperville, IL. The increase is also attributed to the capitalization of related overhead charges as software development costs. See "Cost of Sales" above. Telecommunications costs increased approximately \$70,000 as the call volume increased in technical support and customer service due to the release of the three major product upgrades beginning late December 2003 through December 2004. Corporate service fees increased approximately \$94,000 for the twelve months ended December 31, 2004. These fees are related to the recent hire of an outside consultant, the expense for an issuance of a warrant to purchase 600,000 shares of common stock allocated over the term of the consulting contract, and the expense for a previous issuance of a warrant to purchase 250,000 shares of common stock.

### ***Other Income and Adjustments***

We recorded an adjustment to the balance of accrued royalties for the year ended December 31, 2003 in the amount of approximately \$584,000. This adjustment was a result of our having reached a settlement with TLC regarding the offset credit to which we were entitled against the balance due on the 1999 license. The offset credit was related to sales made to TLC that remained in dispute until verified by an independent third-party audit of the sales and related royalty calculations. The royalty liabilities had been accrued based on our sales to TLC as originally reported and were part of the calculation of the June 30, 2001 bad debt provision totaling \$2,391,000. This has been included in other income.

We also reclassified as other income proceeds totaling \$650,000, and the corresponding accrued interest payable totaling approximately \$217,000, that were previously recorded as an unsecured note payable. The determination to reclassify the obligation was made on the basis of the combined facts that (i) the obligation exists, if at all, solely pursuant to an oral loan agreement made over three years ago in the State of North Carolina with a representative of the party to whom the obligation was believed to have been owed, (ii) no party has ever made any demand for repayment thereof despite the fact that no payments have ever been made on the obligation, (iii) the party believed to be owed the obligation, upon inquiry, claims no record of any such obligation, and (iv) the State of North Carolina Statute of Limitations applicable to oral agreements, believed to govern the continued enforceability of the obligation, has expired.





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During the year ended December 31, 2004, we recognized an approximately \$1,000,000 gain from extinguishment of debt which is included in other income. The extinguishment of debt is a direct result from one-time settlement arrangements with various vendors and content providers for lump-sum payments ranging from approximately 17% to approximately 60% of balances owed at the time. Vendors who were offered the settlement had previously provided services and/or goods to us, and the content providers were owed royalties from us. We do not anticipate this to be a recurring event in the future. Below is a list of the vendors and content providers who we settled with:

- American Bible Society (content provider)
- David Epstein (content provider)
- Depository Trust Company (corporate services)
- Explorer's Bible Study (content provider)
- Genesis Marketing Group (sales services)
- Historical Exegetical Electronic Publishing (content provider)
- Innovative Church Marketing Group (advertising services)
- Interactive Pictures Corporation (content provider)
- InterVarsity Press (content provider)
- Ivy Hill/Warner Media Services (manufacturing services)
- Lernout & Hauspie Speech Products (content provider)
- MicroBytes, Inc. (CD duplication services)
- Moody Publishers (content provider)
- National Council of the Churches of Christ in the United States of America (content provider)
- NavPress Publishing Group (content provider)
- Oxford University Press (content provider)
- Pillsbury, Madison & Sutro LLP (legal services)
- Rutledge Hill Press (content provider)
- Sonopress (manufacturing services)
- Standard Publishing (content provider)
- The Lockman Foundation (content provider)
- World Publishing (content provider)

Furthermore during the year ended December 31, 2004, we incurred approximately \$155,000 in expenses related to a settlement agreement with Swartz Private Equity, an institutional private equity investor, for early termination of the agreement. As part of a settlement agreement, we issued 295,692 shares of common stock and paid a cash lump sum of \$125,000. The shares were valued at \$0.10 per share. This has been included in other adjustments.

### ***Amortization***

Amortization expense increased approximately \$15,000 for the twelve months ended December 31, 2004. The software license acquired from TLC in July of 1999 is amortized over a 10 year useful life. Amortization expense for 2004 reflects the continual amortization of the software license along with the amortization for the launch of our new Website, [www.quickverse.com](http://www.quickverse.com), during the second quarter of 2004.

### ***Income Tax Benefits***

Our effective tax rate differs from the statutory federal rate due to differences between income and expense recognition prescribed by the Internal Revenue Code and Generally Accepted Accounting Principles. We utilize different methods and useful lives for depreciating property and equipment. Changes in estimates (reserves) are recognized as expense for financial reporting but are not deductible for income tax purposes.

We have recognized a net deferred tax asset whose realization depends on generating future taxable income. At December 31, 2003, management established the valuation allowance equal to the total deferred tax assets due to the uncertainty about our ability to continue as a going concern. At December 31, 2004, management adjusted the amount of valuation allowance based on the assessment that we will continue as a going concern and will produce sufficient income in the future to realize our net deferred tax asset. The resulting deferred tax liability reflects income taxes payable in future periods on the net deductible differences related to the 1999 license. We currently have net operating loss carryforwards, for income tax purposes, of approximately \$7,648,000. The carryforwards are the result of income tax losses generated in 2000 (\$2,480,000 expiring in 2020) and 2001 (\$5,168,000 expiring in 2021). We will need to achieve a minimum annual taxable income, before deduction of operating loss carryforwards, of approximately \$450,000 to fully utilize the current loss carryforwards. We believe this is achievable through careful expense management and continued introduction of new products and enhanced versions of our existing products.

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Although there can be no assurance, management expects the deductible temporary differences (reserves) to reverse sometime beyond the next fiscal year.

**LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2004, we had \$1,551,447 in current assets, \$1,383,143 in current liabilities and a retained deficit of \$5,879,159. We had income before income taxes of \$239,866 and a net income after income taxes of \$1,255,725 for the year ended December 31, 2004. Operating expenses for 2004 included approximately \$149,000 in non-cash expenses related to shares of common stock and warrants issued for services and approximately \$30,000 in non-cash expenses related to shares of common stock issued in a settlement agreement. Other income for 2004 included approximately \$1,000,000 from extinguishment of debt. See "Results Of Operations" above.

<b>Cash Flows for Twelve Months Ended December 31</b>	<b>2004</b>	<b>2003</b>	<b>Change</b>
Cash flows provided (used) by operating activities	\$ (643,668)	\$ 882,221	\$ (1,525,889)
Cash flows (used) by investing activities	\$ (746,932)	\$ (814,457)	\$ 67,525
Cash flows provided (used) by financing activities	\$ 1,690,291	\$ (64,747)	\$ 1,755,038

Net cash provided by operating activities was approximately \$882,000 for the year ended December 31, 2003 and net cash used by operating activities was approximately \$644,000 for the year ended December 31, 2004. The increase in cash used was primarily due to an increase in the amounts paid to suppliers and employees which would include all royalty payments to our content providers.

Net cash used in investing activities was approximately \$814,000 and \$747,000 for the years ended December 31, 2003 and 2004, respectively. The decrease in cash used for investing activities results from our merchant banker reserving cash for a potential increase in credit card chargebacks due to increased purchases during the year ended December 31, 2003, and then refunding or holding only half of that original reserve in cash during the year ended December 31, 2004.

Net cash used by financing activities was approximately \$65,000 for the year ended December 31, 2003 and net cash provided by financing activities was approximately \$1,690,000 for the year ended December 31, 2004. Cash used by financing activities reflects final settlement on our accounts receivable line of credit, payments made on debt obligations, and stock offering costs associated with private placement equity financing. Cash provided by financing activities reflects proceeds from issuance of stock and promissory notes.

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On March 19, 2001, we entered into an Accounts Receivable Financing Agreement with Alliance Financial Capital, Inc. Pursuant to this agreement, Alliance agrees to purchase selected accounts receivable on a discounted basis, including, without limitation, full power to collect, compromise, sue for, assign, or in any manner enforce collection thereof. The agreement provides for advances of 60% toward the purchase of the invoices with a credit line of \$250,000. The terms call for 40% to be held in a reserve account from the collection of each invoice. Invoices not paid by the customer within 90 days of shipment are required to be repurchased by us out of the reserve account. The agreement carries a 12 month term with a minimum monthly fee equal to one half of one percent (.5%). The term renews automatically every 12-months unless a written request for termination is received by Alliance at least 30 days before the renewal date. During the twelve months ended December 31, 2004, we transferred accounts receivable totaling \$300,966 to Alliance for cash advances of \$180,580. As accounts are paid, the collected funds (less the amount advanced and appropriate fees) are disbursed to us. The transfer agreement includes a repurchase requirement and, accordingly, the proceeds were accounted for as a secured borrowing. At December 31, 2004, the balance of receivables transferred and included in trade receivables was \$0. The remaining secured borrowing balance included in accrued expenses was \$0. On July 20, 2004, we terminated the Accounts Receivable Financing Agreement with Alliance.

On July 19, 2004, we completed an equity financing in the amount of \$1,750,000 through a private placement with Barron Partners. Under the terms of the agreement, Barron purchased 21,875,000 restricted shares of common stock at a price of \$0.08 per share. In addition, according to the terms of the agreement, Barron received two warrants to purchase common stock. The first warrant entitles the holder to purchase up to 10,937,500 shares of common stock at a price of \$0.18 per share and the second warrant entitles the holder to purchase up to 10,937,500 additional shares of common stock at a price of \$0.60 per share; each warrant is subject to standard adjustment provisions. See Exhibits 10.10, 10.11, 10.12 and 10.13.

On September 30, 2004, we issued promissory notes to each of two different individuals. Each of these promissory notes was in the principal amount of \$120,000 and, pursuant to a separate side letter agreement in each case, was convertible at the option of the holder into 1,000,000 restricted shares of common stock. On November 16, 2004, the holders of the promissory notes converted those notes into a total of 2,000,000 shares of our common stock.

We were in arrears with the Internal Revenue Service for back payroll taxes and had been paying the payroll taxes in monthly installments previously approved by the Internal Revenue Service. Subsequent to the financing received in July of 2004, we paid all back payroll taxes that were due to the Internal Revenue Service.

In July 2004, we made the final payment to Zondervan for \$100,000 plus 5% simple interest. This payment completed all of our obligations that were previously outlined in the settlement with The Zondervan Corporation and TLC dated October 2003. See Note 16 - Commitments and Contingencies. In addition, according to the settlement agreement, the term of the 1999 license has been effectively extended indefinitely. However, we continue to amortize the license using the original 10 year economic life.

## **RISK FACTORS**

Several of the matters discussed in this document contain forward-looking statements that involve risks and uncertainties. Factors associated with the forward-looking statements that could cause actual results to differ from those projected or forecast are included in the statements below. In addition to other information contained in this report, readers should carefully consider the following cautionary statements and risk factors.

### **GENERAL BUSINESS RISKS**

*Our liquidity and capital resources are very limited.*

Our ability to fund working capital and anticipated capital expenditures will depend on our future performance, which is subject to general economic conditions, our customers, actions of our competitors and other factors that are beyond our control. Our ability to fund operating activities is also dependent upon (i) the extent and availability of bank and other credit facilities, (ii) our ability to access external sources of financing, and (iii) our ability to effectively manage our expenses in relation to revenues. We believe that the net proceeds received from our 2004 sales of common stock, warrants and convertible promissory notes, together with future cash flow from operations, and funds from external sources of credit-based debt financing, will be adequate to meet our anticipated liquidity requirements over the next twelve months and will provide additional capital for potential acquisitions. Given our initiative towards rapid revenue growth, there can be no assurance, however, that our operations and access to external sources of financing will continue to provide resources sufficient to satisfy our liabilities arising in the ordinary course of business.

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***Our accumulated deficit makes it harder for us to borrow funds.***

As of June 30, 2005, and as a result of historical losses in prior years, our accumulated deficit was \$5,967,127. The fact that we maintain an accumulated deficit, as well as the extent of our accumulated deficit relative to recent earnings, negatively affects our ability to borrow funds because lenders generally view an accumulated deficit as a negative factor in evaluating creditworthiness. Any inability on our part to borrow funds if and when required, or any reduction in the favorability of the terms upon which we are able to borrow funds if and when required, including amount, applicable interest rate and collateralization, would likely have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations.