FINDEX COM INC
Form POS AM
March 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Post-Effective Amendment No. 2
to
FORM SB-2
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

FINDEX.COM, INC.
(Name of Small Business Issuer in Its Charter)

Nevada	**7372**	**88-0379462**
(State or other Jurisdiction Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

11204 Davenport Street, Suite 100
Omaha, Nebraska 68154
(402) 333-1900
(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

Steven Malone
President and Chief Executive Officer
FINDEX.COM, INC.
11204 Davenport Street, Suite 100
Omaha, Nebraska 68154
(402) 333-1900
(Name, Address and Telephone Number of Agent For Service)

Copies to:

Michael M. Membrado, Esq.
M.M. Membrado, PLLC
115 East 57th Street, Suite 1006
New York, New York 10022

Approximate Date of Proposed Sale to the Public: From time to time after the effective date of this registration statement until such time that all of the shares of common stock hereunder have been sold.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act") check the following box. [X]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Common Stock, par value $.001 per share	24,341,666(2)	$ 0.090(3)	$ 2,190,750	$ 277.57
Common Stock, par value $.001 per share	10,937,500(4)	$ 0.180(5)	$ 1,968,750	$ 249.44
Common Stock, par value $.001 per share	10,937,500(4)	$ 0.600(5)	$ 6,562,500	$ 831.47
Common Stock, par value $.001 per share	125,000(4)	$ 0.148(5)	$ 18,500	$ 2.34
Common Stock, par value $.001 per share	250,000(4)	$ 0.100(5)	$ 25,000	$ 3.17
Common Stock, par value $.001 per share	150,000(4)	$ 0.022(5)	$ 3,300	$ 0.42
Common Stock, par value $.001 per share	600,000(4)	$ 0.150(5)	$ 90,000	$ 11.40
Total	47,341,666		$10,858,800	$1,375.81(6)

(1) Pursuant to Rule 416 under the Securities Act, this registration statement also covers such indeterminate number of additional shares of common stock as may be issuable upon exercise of warrants to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(2) Represents 24,341,666 outstanding shares of our common stock held by our selling stockholders.

(3) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) of the Securities Act, based on the average of the closing bid and asked prices for our common stock as reported on the OTC Bulletin Board on November 19, 2004.

(4) Represents the number of shares of our common stock issuable upon exercise of certain warrants held by our selling stockholders.

(5) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(g) of the Securities Act, based on the stated exercise price.

(6) The filing fee of $1,375.81 is offset by the $507.89 credit due to the Registrant based upon the prior withdrawn registration statement on Form SB-2 filed with the U.S. Securities & Exchange Commission (the “SEC”) on August 2, 2001 pursuant to Rule 457(p) of Regulation C, File No.: 333-66570, less (i) the fee of $27.17 applied to the registration statement on Form S-8 filed with the SEC on September 24, 2002, File No.: 333-100035 and (ii) the fee of $0.82 applied to the registration statement on Form S-8 filed with the SEC on November 8, 2002, File No.: 333-101092.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

This prospectus is dated March 30, 2007

The information contained in this prospectus may be updated from time to time by way of post-effective amendment based on material intervening developments. The selling stockholders may not sell these securities until this registration statement filed with the U.S. Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and the selling stockholders are not soliciting offers to buy these securities in any state where the offer or sale of these securities is not permitted.

PROSPECTUS

FINDEX.COM, INC.

47,341,666 SHARES OF COMMON STOCK

OFFERED BY SELLING STOCKHOLDERS

This prospectus relates to the resale of up to 47,341,666 shares of our common stock by certain persons who are either our stockholders, holders of warrants to purchase our common stock, or both. All of the shares of common stock are being offered for sale by the selling stockholders at prices established on the OTC Bulletin Board during the term of this offering, as will fluctuate from time to time, or as may otherwise be agreed upon in negotiated transactions. We will not receive any proceeds from the sale of our shares by the selling stockholders. If the warrants are exercised in full, we would receive proceeds of $8,668,050. However, because the exercise price of some or all of the warrants may at any given time be above the current market price of our common stock, (i) they may never be exercised and, therefore, we may never actually receive these proceeds, or (ii) if they are exercised, but not for some time, it would not be until then that we receive any such proceeds. We will use the proceeds from any exercise of warrants for general working capital purposes consistent with our business strategy.

Our common stock is quoted on the OTC Bulletin Board under the symbol "FIND". On March 29, 2007, the average of the bid and asked prices of our common stock was $0.037 per share.

Each of the selling stockholders may be deemed to be an "underwriter," as such term is defined in the Securities Act.

An investment in our common stock involves a high degree of risk. You should only invest in our common stock if you can afford to lose your entire investment, and you should read and consider the "risk factors" beginning on page 3 before investing in our common stock.

Neither the SEC nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 30, 2007.

FINDEX.COM, INC.
11204 Davenport Street, Suite 100
Omaha, Nebraska 68154
(402) 333-1900

The following table of contents has been designed to help you find important information contained in this prospectus. We have included subheadings to aid you in searching for particular information you might want to return to. We encourage you to read the entire prospectus.

TABLE OF CONTENTS

PROSPECTUS SUMMARY	1
RISK FACTORS	3
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	12
USE OF PROCEEDS	12
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	13
Nine Months Ended September 30, 2006, Compared with Nine Months Ended September 30, 2005	13
Results of Operations	14
Revenues	15
Cost of Sales	18
Sales, General and Administrative	20
Registration Rights Penalties	23
Derivatives	23
Amortization	23
Income Tax Benefits	23
Liquidity and Capital Resources	24
Financing	25
Contractual Liabilities	25
The Potential Impact of Known Facts, Commitments, Events and Uncertainties on Future Operating Results or Future Liquidity Requirements	26
Fiscal Year Ended December 31, 2005 Compared with Fiscal Year Ended December 31, 2004	28
Results of Operations	28
Revenues	29
Cost of Sales	31
Sales, General and Administrative	33
Other Income and Adjustments	35
Derivatives	36
Amortization	37
Income Tax Benefits	37
Liquidity and Capital Resources	37
Contractual Liabilities	39
The Potential Impact of Known Facts, Commitments, Events and Uncertainties	39

on Future Operating Results or Future Liquidity Requirements	
Critical Accounting Policies	40
BUSINESS	42
Overview	42
Corporate Formation, Legacy & Subsidiaries	42
Strategy	43
Product Development	45
Our Products	45

Our Market	49
Marketing and Advertising	49
Sales	49
Manufacturing and Fulfillment	51
Significant Customers and Suppliers	51
Regulation	51
Competition	51
Intellectual Property	53
Employees	56
Legal Proceedings	56
Properties	56
Seasonality	56
MANAGEMENT	56
Directors and Executive Officers	56
Executive Compensation	58
Information Concerning Stock Options	59
Employment Agreements	60
Director Compensation	61
Indemnification	61
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	61
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	62
INTEREST OF NAMED EXPERTS AND COUNSEL	63
SELLING STOCKHOLDERS	63
PLAN OF DISTRIBUTION	67
DESCRIPTION OF SECURITIES	68
Common Stock	68
Preferred Stock	68
Dividend Policy	69
MARKET INFORMATION	69
TRANSFER AGENT	70
LEGAL MATTERS	70
EXPERTS	70
ADDITIONAL INFORMATION	70
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

Unless otherwise specified, the information in this prospectus is set forth as of March 30, 2007, and we anticipate that changes in our affairs will occur after such date. We have not authorized any person to give any information or to make any representations other than as contained in this prospectus in connection with the offer contained in this prospectus. If any person gives you any information or makes representations in connection with this offer, do not rely on it as information we have authorized. This prospectus is not an offer to sell our common stock in any state or other jurisdiction to any person to whom it is unlawful to make such offer.

PROSPECTUS SUMMARY

This summary highlights information found in greater detail elsewhere in this prospectus. You should read the entire prospectus carefully, including the “Risk Factors” described in pages 3 through 11 and our consolidated financial statements beginning on page F-1, before making any investment in the shares offered hereby.

ABOUT OUR BUSINESS

We develop, publish, market, distribute and directly sell off-the-shelf consumer and organizational software products for PC, Macintosh® and PDA platforms. The common thread among our products is a customer constituency that shares a devotion to, or interest in, Christianity and faith-based “inspirational” values. Our focus is on becoming 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.

Our faith-based software titles, all of which are proprietary, 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

ABOUT OUR COMPANY

We were incorporated in the State of Nevada in 1997 as EJH Entertainment, Inc., which was later changed to FINdex.com, Inc. Beginning in 1997, and although we were not then a reporting company under the Securities Exchange Act of 1934, as amended, our common stock was quoted on the OTC Bulletin Board. On March 7, 2000, we acquired 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. 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. See “Business - Corporate Formation, Legacy and Subsidiaries”.

We currently have two wholly-owned subsidiaries, neither of which have any operations, employees or revenues. They include Findex.com, Inc., a Delaware corporation, and Reagan Holdings, Inc., also a Delaware corporation.

Our principal office is located at 11204 Davenport Street, Suite 100, Omaha, Nebraska 68154. Our main telephone number is (402) 333-1900. See “Where You Can Find Additional Information”.

Table of Contents

THE OFFERING BY THE SELLING STOCKHOLDERS

On July 19, 2004, we entered into a certain Stock Purchase Agreement pursuant to which we agreed to issue and sell 21,875,000 restricted shares of our common stock to Barron Partners, LP, a New York based institutional investor, at a price of $0.08 per share. Under the terms of transaction, Barron Partners, LP also received two common stock purchase warrants. The first warrant entitles the holder, for a period of up to five years, to purchase up to 10,937,500 common shares at a price of $0.18 per share, subject to standard adjustment provisions. The second warrant entitles the holder, also for a period of up to five years, to purchase up to 10,937,500 additional common shares at a price of $0.60 per share, also subject to standard adjustment provisions. As part of the financing transaction, we entered into a certain Registration Rights Agreement with Barron Partners, LP pursuant to which we committed to registering all of the shares issued as part of such transaction, including those issuable under each of the two warrants. See “Selling Stockholders” and “Certain Relationships and Related Transactions”.

In addition to the shares of our common stock issued to Barron Partners, LP and the common stock issuable upon exercise of the warrants issued to Barron Partners, LP, we are also registering the following:

- 2,000,000 shares of our common stock issued as of November 16, 2004 upon conversion of $240,000 of previously outstanding debt securities;
- 466,666 shares of our common stock issued as of December 31, 2004 upon conversion of $23,333 of previously outstanding debt securities; and
- 1,125,000 shares of our common stock issuable upon exercise of warrants previously issued to a number of our consultants/service providers.

Under this prospectus, the selling stockholders are offering a total of up to 24,341,666 shares of our common stock, and 23,000,000 additional shares of common stock issuable upon exercise of the warrants described above. On March 30, 2007, there were 49,788,317 shares of our common stock outstanding. Upon the exercise of the warrants described above, the number of shares offered by this prospectus represents 65% of our total common stock outstanding on March 30, 2007.

Total common stock outstanding prior to this offering	49,788,317
Total common stock offered for resale to the public in this offering	47,341,666
Common stock outstanding after this Offering	72,788,317
Percentage of common stock outstanding following this offering that shares being offered for resale represent	65%

All of the shares covered by this prospectus are being registered to permit the selling stockholders and any of their respective successors-in-interest to offer the respective shares for resale from time to time. The selling stockholders are not required to sell their shares, and any sales of common stock by the selling stockholders are entirely at their own discretion.

We will receive no proceeds from the resale of our common stock in this offering. We may, however, receive proceeds upon the exercise of some or all of the warrants. If the warrants are exercised in full, we would receive $8,668,050 in proceeds. However, because the exercise price of some or all of the warrants may at any given time be above the current market price of our common stock, (i) they may never be exercised and, therefore, we may never actually receive these proceeds, or (ii) if they are exercised, but not for some time, it would not be until then that we receive any such proceeds. Any proceeds received upon the exercise of warrants will be used for general working capital purposes consistent with our business strategy. See “Use of Proceeds”.

TRADING INFORMATION

Our stock trades on the OTC Bulletin Board under the symbol “FIND”. On March 29, 2007, the average of the bid and asked prices of our common stock was $0.037 per share.

Table of Contents

RISK FACTORS

An investment in the common stock being offered for resale by the selling stockholders is very risky. You should carefully consider the risk factors described below, together with all other information in this prospectus before making an investment decision. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks manifest as actual problems for us, they would likely have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

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. Although we believe that our existing working capital, together with cash flow from operations, will be adequate to meet our minimum anticipated liquidity requirements over the next twelve months, given our initiative toward rapid revenue growth and due to our need to service certain long-term liabilities, it is likely to become necessary for us to raise additional capital to support growth and/or otherwise finance potential acquisitions. Furthermore, there can be no assurance that our operations or access to external sources of financing will continue to provide resources sufficient to satisfy our liabilities arising in the ordinary course of business, and while it may be possible to borrow funds as required, any such additional capital is likely to require that we sell and issue additional equity and/or convertible securities, including shares issuable upon exercise of currently outstanding warrants, any of which issuances would have a dilutive effect on holdings of existing shareholders. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources”.

There is uncertainty as to our ability to continue as a going concern.

Our audited financial statements for the year ended December 31, 2005 and unaudited financial statements for the period ended September 30, 2006, including the footnotes thereto, call into question our ability to continue as a going concern. This conclusion was drawn from the fact that, as of the date thereof, we had negative current ratios and total liabilities in excess of total assets. Those factors, as well as ambiguities associated with our ability to secure additional financing for continued operations, if necessary, created, at the time, an uncertainty regarding our ability to continue as a going concern, and, furthermore, there can be no assurance that we have effectively mitigated against this risk, and that our financial statements, going forward, will not also call into question our ability to continue as a going concern. See Note 20 in the Notes to the Consolidated Financial Statements for the year ended December 31, 2005 and Note 10 in the Notes to the Condensed Consolidated Financial Statements for the quarter ended September 30, 2006.

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

As of September 30, 2006, and as a result of historical losses in prior years, our accumulated deficit was $7,750,886. 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources”.

Table of Contents

RISKS ASSOCIATED WITH OUR BUSINESS AND INDUSTRY

We face serious competition in our business segment.

The market for our products is rapidly evolving and intensely competitive as new consumer software products and platforms are regularly introduced. Competition in the consumer 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, Christian Bookseller’s Association, direct and online sales. Specifically, we currently compete with Logos Research Systems, Inc., Biblesoft, Inc., Thomas Nelson, Inc., WordSearch Bible Publishers and The Zondervan Corporation, among others.

To remain competitive in our market segment we rely heavily upon our product quality, marketing and sales abilities, proprietary technology and product development capability. However, 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. Only a small percentage of titles introduced into the software market achieve any degree of sustained market acceptance. If our titles, including special editions, are not successful, our business, our financial condition, including liquidity and profitability, and our results of operations will be negatively impacted. Moreover, we believe that competition from new entrants will increase as the market for faith-based products and services continues to expand. See “Business - Competition”.

We depend on only two titles for the overwhelming majority of our revenue.

In fiscal year 2005, approximately 92% of our total revenue was derived from two software titles; QuickVerse®, comprising 66% of total revenue, and Membership Plus®, comprising 26% of total revenue. We expect that these two products will continue to produce a disproportionately large amount of our revenue for the foreseeable future. Due to this dependence on a limited number of titles, the failure of one or more titles or title versions to achieve anticipated results would likely have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations. See “Business - Our Products”.

We have experienced, and may continue to experience, reduced revenues and fluctuations in our quarterly operating results due to delays in the introduction and distribution of our products.

A significant portion of our revenue for any given quarter is generated by the sale of new titles and title versions introduced during that quarter or shipped in the immediately preceding quarter. Our inability to timely begin volume shipments of a new title or title version in accordance with our internal development schedule, as has repeatedly been the case in the past, will cause earnings fluctuations and will negatively impact our business, our financial condition, including liquidity and profitability, and our results of operations. Timely introduction of a new title or title version is largely contingent upon the timing of a variety of other factors. Included amongst these are development processes themselves, debugging, approval by third-party content licensors and duplication and packaging processes. Furthermore, the complexity of next-generation operating systems (such as Macintosh® OS X and Windows® Mobile) has resulted in longer development cycles, higher development expenditures and the need to more carefully monitor and plan development processes associated with these products.

Table of Contents

We cannot be certain that we will be able to meet planned release dates for some or all of our new titles or title versions. In the past, we have experienced significant delays in our introduction of some new titles and title versions. For instance, delays in duplication, packaging and distribution caused our QuickVerse® 2005 to begin shipping in early-December 2004, long after the holiday season had been underway. As a result, we experienced fewer sales than we might otherwise have had the product been available before the holiday selling season began, which we believe had a material adverse effect on our results of operations for the 2004 fourth quarter. Furthermore, we experienced a delay in our annual release of Membership Plus® 2007, which had been scheduled to commence shipping in February 2006 but which, due to delays associated with the loss of one of our key developers, commenced shipping in October 2006. It is likely in the future that delays will continue to occur and that some new titles or title versions will not be released in accordance with our internal development schedule, having a negative impact on our business, our financial condition, including liquidity and profitability, and our results of operations in that period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Revenues".

We have experienced, and may continue to experience, reduced revenues and fluctuations in our quarterly operating results due to the limited life cycle of our products.

The average life cycle of a new title ranges anywhere from a few years to indefinitely, and the average life cycle of a new title version ranges anywhere from twelve to upwards of eighteen months, making our revenue and operating results difficult to predict and susceptible to substantial fluctuations from quarter to quarter. While there can be no assurance, we expect, based on historical experience, that a majority of sales for a new title or title version will occur within the first thirty to one hundred twenty days following its release, and that net revenue associated with the initial introduction will generally account for a disproportionately large percentage of total net revenues over the life of the title or title version. For example, our QuickVerse® 2006 began shipping in September 2005, nine months following the release of QuickVerse® 2005 and three months following the release of QuickVerse® 2005 Platinum, resulting, we believe, in a product market overlap that ultimately led to fewer customer upgrades upon our initial release of QuickVerse® 2006. Furthermore, factors such as competition, market acceptance, seasonality and technological developmental and/or promotional expenses associated with a title or title version can shorten the life cycle of older titles and title versions and increase the importance of our ability to regularly release new titles and title versions. Consequently, if net revenue in a given period is below expectation, our business, our financial condition, including liquidity and profitability, and our results of operations for that period are likely to be negatively affected, as has repeatedly occurred in the past.

Product returns, price protections or price concessions that exceed our anticipated reserves could result in worse than expected operating results.

At the time we ship our products we establish reserves, including reserves that estimate the potential for future product returns and price concessions. In the past, particularly during title version transitions, we have had to increase price concessions to our wholesale retail customers. If consumer demand for a specific title or title version falls below expectations or significantly declines below previous rates of retail sell-through, then a price concession or credit may be requested by our wholesale retail customers to spur further retail channel sell-through. Coupled with more competitive pricing, if product returns, price protections or price concessions exceed our reserves the magnitude of quarterly fluctuations will increase and our operating and financial results will be negatively impacted. Furthermore, if we incorrectly assess the creditworthiness of any one of our wholesale customers who take delivery of our products on credit, we could be required to significantly increase reserves previously established.

Typically we experience the highest reserves at the end of the first quarter and fourth quarter and the lowest at the end of the third quarter. 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Revenues”.

Table of Contents

Errors or defects in our software products may cause a loss of market acceptance and result in fewer sales and/or greater returns of our products.

Our products are complex and may contain undetected errors or defects when first introduced or as new versions are released. In the past, we have discovered software errors in some of our new products and enhancements following introduction into the market. Because our products are complex, we anticipate that software errors and defects will be present in new products or releases in the future. To date we have not discovered any material errors, however, future errors and defects could result in adverse product reviews and a loss of, or delay in, market acceptance of our products.

We may not have available funds to develop products that consumers want.

The Bible-study, inspirational content and organizational management software markets are subject to rapid technological developments. Although the life of most of our titles may be quite long, the life of any given version tends to be relatively short, in many cases less than three years. To develop products that consumers, church and other faith-based organizations desire, we must continually improve and enhance our existing products and technologies and develop new products and technologies that incorporate these technological developments. Our inability to do this would likely have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations.

We focus our development and publishing activities principally on new versions of our existing titles. We cannot, however, be certain that we will have the financial and technical resources available to continue to develop these new title versions particularly since we must undertake these initiatives while remaining competitive in terms of performance and price. This will require substantial investments in research and development, often times well in advance of the widespread release of a product into the market and any revenues these products may generate.

Our costs for product development for the fiscal year ended December 31, 2005 were higher than the fiscal year ended December 31, 2004 and our product development costs may continue to increase in the future as a result of the higher costs associated with releasing more software titles or new title versions across multiple user interface platforms, and the complexity of developing such titles and title versions for next-generation systems, among other reasons. We anticipate that our profitability will continue to be impacted by the levels of research and development expenditures relative to revenue and by fluctuations relating to the timing of development in anticipation of future user interface platforms.

The loss of any of our key executives could have a material adverse effect on our business.

Our success depends to a large degree upon the skills of our three key executives, Steven Malone, Kirk R. Rowland and William Terrill. We presently do not maintain key person life insurance on any of our three key executives. Although we have employment agreements with each of our three key executives, there can be no assurance that we will be able to retain these executives or attract and retain additional key executives. The loss of any one of our three key executives would likely have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations. See “Management - Directors and Executive Officers”.

The successful development of our products depends on our ability to attract, integrate, motivate and retain highly skilled personnel.

Our success depends to a large extent on our ability to attract, hire and retain skilled software developers, programmers and other highly skilled technical personnel. The software industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for personnel with programming, technical and product development skills. We may not be able to attract and retain skilled personnel or may incur significant costs in order to do so. If we are unable to attract additional qualified employees or retain the services of key personnel, our business, our financial condition, including liquidity and profitability, and our results of operations could be negatively impacted.

Table of Contents

Our intellectual property may not be adequately protected from unauthorized use by others, which could increase our litigation costs and adversely affect our sales.

Our copyrighted software content and the brand recognition associated with our related product trademarks are the most important assets that we possess in our 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. There can be no assurance that these intellectual property assets will provide meaningful protection to us from unauthorized use by others, which could result in an increase in competing products and a reduction in our own sales. 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 any case. This is particularly true given the fact that the copyrights that we own to the source code and other improvements made to our largest-selling products since 1999 have not been registered, which means that we may not rely upon the otherwise existing advantage of a rebuttable presumption of ownership in the event of, and in connection with, any such litigation. See “Business - Intellectual Property”.

Our exclusive rights to publish and sell our largest-selling titles are limited to non-secular channels.

Approximately 99% of our revenues in 2005, including those generated from sales of QuickVerse® and Membership Plus®, by far our two largest selling software titles, were derived from the publishing and sales of software titles to which we have only the exclusive license to publish and sell into non-secular channels. Although, as of the date hereof, we do not believe that any third parties have been granted rights in addition to our own to publish or sell these titles into secular channels, and we 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 adversely impact on our sales and revenues. See “Business - Intellectual Property”.

If our products infringe any proprietary rights of others, a lawsuit may be brought against us that could require us to pay large legal expenses and judgments and redesign or discontinue selling one or more of our products.

We are not aware of any circumstances under which our products infringe upon any valid existing proprietary rights of third parties. Any infringement claims, however, whether or not meritorious, could result in costly litigation or require us to enter into royalty or licensing agreements. If we are found to have infringed the proprietary rights of others, we could be required to pay damages, redesign the products or discontinue their sale. Any of these outcomes, individually or collectively, could have a material adverse effect on our business, our financial condition, including liquidity and profitability, or our results of operations.

New Internet access devices may change the way information is displayed requiring us to change our products.

Recent increases in the use of Internet devices to access inspirational content and the continued development of Internet devices as a medium for the delivery of network-based information, content and services may require us to change our products. Our success depends on our ability to understand the method upon which our search engines operate and our ability to service new and emerging devices to access the Internet, such as browser phones, personal digital assistants, and other wireless devices. To the extent these new Internet access devices change the way that information is displayed to the end-user or causes a change in the medium that is searched, we may be required to revise the methodology of our products. We cannot predict the impact that new devices will have on our services across the entire spectrum of developing technologies, and any required product adaptations may result in loss of revenue and goodwill, increased expenses, and reduced operating margins.

-7-

Table of Contents

Revenue varies due to the seasonal nature of consumer software purchases.

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, typically generating less than 30% of our annual sales. The seasonal pattern is due primarily to the increased consumer demand for software during the year-end holiday selling season and the reduced demand for software during the summer months. Our earnings vary significantly and are materially affected by releases of popular titles and title versions and, accordingly, may not necessarily reflect the seasonal patterns of the industry as a whole. We expect that operating results will continue to fluctuate seasonally in the future.

RISKS ASSOCIATED WITH AN INVESTMENT IN OUR COMMON STOCK

We may incur derivative liabilities in an as yet unknown amount in connection with our prior issuance of common stock warrants.

In November 2004, in connection with a certain Stock Purchase Agreement, we issued two warrants to purchase an aggregate of 21,875,000 shares of our common stock to Barron Partners, LP. Subject to standard adjustment provisions, each warrant provides for settlement in registered shares of our common stock and each, for the duration of any period in which there is not an effective registration statement covering the shares underlying the warrants, may be settled in a cashless, net-share settlement. In accordance with applicable accounting mandates, until each of the warrants issued to Barron Partners are either fully exercised or expire the derivative liability associated with these warrants must continuously be adjusted to fair value at each balance sheet date and accordingly reassessed at each such time to determine whether the warrants should be classified (or reclassified, as appropriate) as a liability or as equity. The fair value of each warrant was initially assessed at $2,187,500 using the Black-Scholes valuation method, with such fair value directly relating and fluctuating in response to the share price of our common stock. At December 31, 2005, the fair value of the derivative liability was approximately $2,062,000, and a fair value adjustment of approximately $34,000 was included in other expenses for our fiscal year then ended. At September 30, 2006, the fair value of the derivative liability was approximately $953,000 and a fair value adjustment of approximately $1,110,000 was included in other income for our fiscal quarter then ended. In the event that the fair value of the derivative liability exceeds the amount of any cashless, net-share settlement under the warrants, we may find it necessary to compensate the holder through cash payments, which would have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations, including a corresponding reduction in our net income and the likelihood of a net loss for the year. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Derivatives”.

Up to 47,341,666 shares of our common stock are eligible for public sale as a result of this registration which is likely to depress our stock price.

When this registration statement was originally declared effective by the SEC on February 1, 2006, 24,341,666 shares of our common stock became eligible for immediate resale on the public market and an additional 23,000,000 shares of our common stock underlying warrants, upon their exercise, became eligible for immediate resale on the public market. As a percentage of our total outstanding common stock as of the date of the prospectus, this represents 64.8%. If a significant number of shares are offered for sale simultaneously, which is likely to occur, it would have a depressive effect on the trading price of our common stock on the public market. Any such depressive effect may encourage short positions and short sales, which could place further downward pressure on the price of our common stock. Moreover, all of the shares sold in the offering are freely transferable without restriction or further registration under the Securities Act (except for any shares purchased by our “affiliates”, as defined in Rule 144 of the Securities Act), which could place even further downward pressure on the price of our common stock. Furthermore, should a simultaneous sell-off occur, and due to the thinly-traded market for our common stock, stockholders may have difficulty selling shares of our common stock, at or above the price paid, at a fair market value or even at all. See “Selling Stockholders” and “Plan of Distribution”.

Unless an active trading market develops for our common stock, you may not be able to sell your shares.

We are a reporting company and our common stock is listed on the OTC Bulletin Board (owned and operated by the Nasdaq Stock Market, Inc.), however, there is no active trading market for our common stock. There can be no assurance that an active trading market will ever develop for our common stock or, if it does develop, that it will be maintained. Failure to develop or maintain an active trading market will have a generally negative effect on the price of our common stock, and you may be unable to sell your shares or any attempted sale of such shares may have the effect of lowering the market price, and therefore your investment could be a complete or partial loss.

Table of Contents

Unless and until we garner analyst research coverage, we are unlikely to create long-term market value in our common stock.

Although we are a reporting company and our common shares are listed on the OTC Bulletin Board, we are unaware of any investment banking firms, large or small, that currently provide analyst research coverage on our company and, given our relatively small size within the public securities markets, it is unlikely that any investment banks will begin doing so in the near future. Without continuing research coverage by reputable investment banks or similar firms, it is considerably more difficult, and unlikely, to attract the interest of most institutional investors, which are generally considered to be very important in achieving a desirable balance in shareholder composition and long-term market value in a stock. While we intend to continue to aggressively pursue investor relations initiatives designed to create visibility for our company and common stock, and hope to garner analyst coverage in the future, there can be no assurance that we will succeed in this regard and any inability on our part to develop such coverage is likely to materially impede the realization of long-term market value in our common stock.

Since our common stock is thinly traded, it is more susceptible to extreme rises or declines in price, and you may not be able to sell your shares at or above the price you paid.

You may have difficulty reselling shares of our common stock, either at or above the price you paid, or even at a fair market value. The stock markets often experience significant price and volume changes that are not related to the operating performance of individual companies, and because our common stock is thinly traded, it is particularly susceptible to such changes. These broad market changes may cause the market price of our common stock to decline regardless of how well we perform as a company, and, depending on when you determine to sell, you may not be able to obtain a price at or above the price you paid.

Trading in our common stock on the OTC Bulletin Board may be limited thereby making it more difficult for you to resell any shares you may own.

Our common stock trades on the OTC Bulletin Board (owned and operated by the Nasdaq Stock Market, Inc.). The OTC Bulletin Board is not an exchange and, because trading of securities on the OTC Bulletin Board is often more sporadic than the trading of securities listed on a national exchange or on the Nasdaq National Market, you may have difficulty reselling any of the shares of our common stock that you purchase from the selling stockholders.

Our common stock is subject to the "penny stock" regulations, which is likely to make it more difficult to sell.

Our common stock is considered a "penny stock," which generally is a stock trading under $5.00 and not registered on national securities exchanges or quoted on the Nasdaq National Market. The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. This regulation generally has the result of reducing trading in such stocks, restricting the pool of potential investors for such stocks, and making it more difficult for investors to sell their shares. Prior to a transaction in a penny stock, a broker-dealer is required to:

- deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market;
- provide the customer with current bid and offer quotations for the penny stock;
- explain the compensation of the broker-dealer and its salesperson in the transaction;
- provide monthly account statements showing the market value of each penny stock held in the customer's account; and
- make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction.

These requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that is subject to the penny stock rules. Since our common stock is subject to the penny stock rules, investors in our common stock may find it more difficult to sell their shares. See “Market Information”.

Table of Contents

Our stock price could be volatile, and your investment could suffer a decline in value.

The trading price of our common stock is likely to be highly volatile and could be subject to extreme fluctuations in price in response to various factors, many of which are beyond our control, including:

- the trading volume of our shares;
- the number of securities analysts, market-makers and brokers following our common stock;
- changes in, or failure to achieve, financial estimates by securities analysts;
- new products introduced or announced by us or our competitors;
- announcements of technological innovations by us or our competitors;
- our ability to produce and distribute retail packaged versions of our software in advance of peak retail selling seasons;
- actual or anticipated variations in quarterly operating results;
- conditions or trends in the consumer software and/or Christian products industries;
- announcements by us of significant acquisitions, strategic partnerships, joint ventures, or capital commitments;
- additions or departures of key personnel;
- sales of our common stock; and
- stock market price and volume fluctuations of publicly-traded, particularly microcap, companies generally.

The volatility of our common stock is illustrated by reference to the fact that, during fiscal year 2006, our trading price fluctuated from a low of $0.03 to a high of $0.15 per share. See “Market Information”.

The stock market has recently experienced significant price and volume fluctuations. Volatility in the market price for particular companies has often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In addition, securities class action litigation has often been initiated following periods of volatility in the market price of a company’s securities. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of management’s attention and resources from our business. Moreover, and as noted above, our shares are currently traded on the OTC Bulletin Board and, further, are subject to the penny stock regulation. Price fluctuations in such shares are particularly volatile and subject to manipulation by market-makers, short-sellers and option traders. See “Market Information”.

Table of Contents

Future sales of our common stock by our officers or directors may depress our stock price.

Our officers and directors are not contractually obligated to refrain from selling any of their shares; therefore, our officers and directors may sell any shares owned by them which are registered under the Securities Act, or which otherwise may be sold without registration to the extent permitted by Rule 144 or other exemptions. Because of the perception by the investing public that a sale by such insiders may be reflective of their own lack of confidence in our prospects, the market price of our common stock could decline as a result of a sell-off following sales of substantial amounts of common stock by our officers and directors into the public market, or even the mere perception that these sales could occur.

Future issuances of our common or preferred stock may depress our stock price and dilute your interest.

We may want to issue additional shares of our common stock in future financings and may grant stock options to our employees, officers, directors and consultants under our stock incentive plan. Any such issuances could have the effect of depressing the market price of our common stock and, in any case, would dilute the interests of our common stockholders. In addition, we could issue serial preferred stock having rights, preferences and privileges senior to those of our common stock, including the right to receive dividends and/or preferences upon liquidation, dissolution or winding-up in excess of, or prior to, the rights of the holders of our common stock. This could depress the value of our common stock and could reduce or eliminate the amounts that would otherwise have been available to pay dividends on our common stock (which are unlikely in any case) or to make distributions on liquidation.

If you require dividend income, you should not rely on an investment in our common stock.

Because we have very limited cash resources and a substantial accumulated deficit relative to recent earnings, we have not declared or paid any dividends on our common stock since our inception and we do not anticipate declaring or paying any dividends on our common stock in the foreseeable future. Rather, we intend to retain earnings, if any, for the continued operation and expansion of our business. It is unlikely, therefore, that holders of our common stock will have an opportunity to profit from anything other than potential appreciation in the value of our common stock held by them. If you require dividend income, you should not rely on an investment in our common stock.

The lack of a majority of independent directors on our board of directors may affect our ability to be listed on a national securities exchange.

We are not currently subject to the listing requirements of any national securities exchange. The listing standards of the national securities exchanges require that a company's board of directors consist of a majority of directors who are independent as defined by the Sarbanes-Oxley Act of 2002 and as defined by applicable listing standards, and that the audit committee of the board of directors must consist of at least two members, both of whom are independent. Similarly, the compensation and nominating committees of company boards of directors must also consist of independent directors. Currently, we have, only a single director who meets the definition of an "independent" director as defined by the Sarbanes-Oxley Act of 2002 and the listing standards of the national securities exchanges. Despite our efforts to do so, we have not yet identified qualified and willing individuals to serve as additional independent directors. Two of our three directors are currently serving as our executive officers and thereby do not qualify as independent. There is no guarantee that we will be able to appoint an additional director who will satisfy these independence requirements. For so long as we remain unable to appoint an additional independent director to our board, we will be unqualified to list any of our capital stock on a national securities exchange.

There may exist a potential conflict of interest between us and each of our former and current counsel.

In the past we have issued, and we may continue in the future to issue, warrants to purchase our common stock as equity compensation for legal and other services rendered in connection with the preparation of our securities filings. Specifically, we have issued certain warrants to Michael M. Membrado, our corporate and securities counsel, all of which currently remain outstanding and unexercised. Due to these issuances, there exists the potential for a conflict of interest between us and each of our current and former counsel insofar as the recipients may have been or may be motivated by personal interests that are not necessarily aligned with our own.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This registration statement, as well as our other reports filed with the SEC and our press releases and other communications, contain forward-looking statements. Forward-looking statements include all statements regarding our expected financial position, results of operations, cash flows, dividends, financing plans, strategy, budgets, capital and other expenditures, competitive positions, growth opportunities, benefits from new technology, plans and objectives of management, and markets for stock. These forward-looking statements are based largely on our expectations and, like any other business, are subject to a number of risks and uncertainties, many of which are beyond our control. The risks include those stated in the “Risk Factors” section of this registration statement and economic, competitive and other factors affecting our operations, markets, products and services, expansion strategies and other factors discussed elsewhere in this registration statement and the other documents we have filed with the SEC. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this registration statement will in fact prove accurate, and our actual results may differ materially from the forward-looking statements.

USE OF PROCEEDS

We will not receive any proceeds from the resale of our common stock pursuant to this offering. We may, however, receive proceeds upon the exercise of the warrants, the underlying common shares of which are being registered hereunder. If all of the warrants are exercised we estimate that we would realize net proceeds of approximately $8,018,578. Net proceeds are determined after deducting all of the expenses associated with this offering (estimated to be approximately $649,472). However, because the exercise price of some or all of the warrants may at any given time be above the current market price of our common stock, (i) they may never be exercised and, therefore, we may never actually receive these proceeds, or (ii) if they are exercised, but not for some time, it would not be until then that we receive any such proceeds.

If all of the warrants are exercised, we would realize $8,018,578 in net proceeds, and although there can be no assurance, we intend to use the net proceeds from this offering as follows:

Product Development	$ 2,000,000
Marketing and Promotion	500,000
Other Working Capital Needs	5,018,578
New Content License Acquisitions	500,000
Total Net Proceeds	$ 8,018,578

The amounts that we actually expend on each of the items listed above will vary significantly depending on a number of factors, including our future results of operations. As a result, we will retain broad discretion in the allocation of the net proceeds of this offering. Pending the use of any proceeds as discussed above, we intend to invest these funds in short-term, interest-bearing investment-grade obligations or accounts.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

NINE MONTHS ENDED SEPTEMBER 30, 2006, COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2005

This information should be read in conjunction with our consolidated financial statements for the period ended September 30, 2006 and the notes to those consolidated financial statements.

Management Overview

During the third quarter of 2006 we released an upgrade to our flagship product, QuickVerse®, which was one month earlier than our corresponding upgrade release of QuickVerse® in 2005. In addition, this marked the second year in a row that we released an upgrade to the QuickVerse® (Windows) product line that would reach the retail stores prior to the holiday season beginning. QuickVerse® 2007 is currently available in six editions, QuickVerse® 2007 Bible Suite, QuickVerse® 2007 Essentials, QuickVerse® 2007 Standard, QuickVerse® 2007 Expanded, QuickVerse® 2007 Deluxe and QuickVerse® 2007 Platinum. These QuickVerse® 2007 editions range in retail price from $39.95 to $799.95. The QuickVerse® 2007 new features include web dictionary support, integrated PDF files, integrated RSS subscriptions and integrated web pages. We believe that the unique features of the new QuickVerse® 2007 editions will provide us with an opportunity to broaden our customer base as our products appeal not only to those just beginning their journey into Bible study but also to the scholars who are searching for an in-depth knowledge of the Bible.

During the second quarter of 2006 we released QuickVerse® 2006 Macintosh® Gold Edition, with a suggested retail price of $349.95, which offers more content to Mac users than ever before. This edition offers 19 Bibles and 144 reference titles, a retail value of over $4,000 if sold separately. We also released the Holman Christian Standard Bible®, with a suggested retail price of $29.95, which is sponsored by Broadman & Holman Publishers. This Bible translation provides English-speaking people across the world with an accurate, readable Bible in contemporary English and equips serious Bible students with an accurate translation for personal study, private devotions and memorization.

Finally, during the first quarter of 2006, we released QuickVerse® 2006 Parable Edition, with a suggested retail price of $49.95, and QuickVerse® 2006 Bible Suite, with a suggested retail price of $29.95. QuickVerse® 2006 Bible Suite appeals to those customers seeking their first Bible study software. QuickVerse® 2006 Parable Edition is sold exclusively at Parable® retail outlets and through Parable®'s website, at www.parable.com, and unlike other QuickVerse® editions, QuickVerse® 2006 Parable contains exclusive Parable® content such as *Books That Change Lives* and *Standing Firm Devotional*.

Comparatively, during the third quarter of 2005, we released QuickVerse® 2006 three months earlier than our upgrade release of QuickVerse® in 2004. During the second quarter of 2005, and for the first time in our operating history, we introduced QuickVerse® to the Macintosh Operating System in two editions, QuickVerse® Macintosh Black Box (includes 12 Bibles and 56 reference titles), with a suggested retail price of $99.95 and QuickVerse® Macintosh White Box (includes 9 Bibles and 40 reference titles), with a suggested retail price of $49.95. We also released an updated version of Bible Illustrator® 3.0 entitled Sermon Builder® 4.0, with a suggested retail price of $69.95. Lastly, during the first quarter of 2005, we released an upgrade to our top-selling financial and data management software, Membership Plus®, with a suggested retail price of between $149.95 and $349.95, and introduced QuickVerse® 2005 Essentials, with a suggested retail price of $49.95, and QuickVerse® 2005 Platinum, with a suggested retail price of $799.95.

Although we did not release an upgrade version of Membership Plus® during the first three quarters of 2006, we did release one in our fourth quarter of 2006. Furthermore, we anticipate the releases of enhanced versions of

QuickVerse® Mobile and QuickVerse® Macintosh during our fourth quarter of 2006, as well as the introduction of a few new titles that will offer additional content to our QuickVerse® users.

-13-

Table of Contents

Despite our decreased gross revenues during the nine months ended September 30, 2006, and although there can be no assurance, we anticipate that revenues will increase in real terms throughout the remainder of our 2006 fiscal year based upon our development schedule for the remainder of the fiscal year and the broadened content made available for our QuickVerse® products.

Results Of Operations for Quarters Ended September 30, 2006 and September 30, 2005

Statement of Operations for Nine Months Ended September 30	**2006**	2005	Change	%
Net revenues	**$ 2,586,197**	$ 3,978,019	$ (1,391,822)	35%
Cost of sales	**1,361,157**	1,410,191	(49,034)	3%
Gross profit	**$ 1,225,040**	$ 2,567,828	$ (1,342,788)	52%
Total operating expenses	**(2,315,591)**	(3,183,446)	867,855	27%
Loss from operations	**$ (1,090,551)**	$ (615,618)	$ (474,933)	77%
Registration rights penalties	**(49,314)**	(277,792)	228,478	82%
Gain (loss) on fair value adjustment of derivatives	**1,109,548**	(874,992)	1,984,540	227%
Other expenses, net	**(57,929)**	(12,009)	(45,920)	382%
Loss before income taxes	**$ (88,246)**	$ (1,780,411)	$ 1,692,165	95%
Income tax benefit	**89,457**	187,182	(97,725)	52%
Net income (loss)	**$ 1,211**	$ (1,593,229)	$ 1,594,440	100%

Our software products are 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, historically generating only approximately 29% of our annual sales.

Our gross profit decreased approximately $1,343,000 from a gross profit of approximately $2,568,000 for the nine months ended September 30, 2005 to a gross profit of approximately $1,225,000 for the nine months ended September 30, 2006. Further, we incurred a loss from operations of approximately $1,091,000 for the nine months ended September 30, 2006, representing an increase of approximately $475,000 in our loss from operations of approximately $616,000 for the nine months ended September 30, 2005. These negative results of operations are primarily attributable to the following:

For the nine months ended September 30, 2006:

our gross revenues decreased approximately $1,951,000 to approximately $ 2,794,000 for the nine months ended September 30, 2006 from approximately $4,745,000 for the nine months ended September 30, 2005. This decrease is primarily attributable to the following:

an overall net decrease in unit sales of our QuickVerse® product line due to a reduction in the perceived value on the part of customers of certain upgrades based on the relative frequency thereof;

the lack of product releases during the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005, including our annual release of Membership Plus®; and

the decreased suggested retail price in those products that were released during the nine months ended September 30, 2006 compared to those released during the nine months ended September 30, 2005;

our cost of sales remained relatively high, only decreasing approximately $49,000 from approximately $1,410,000 for the nine months ended September 30, 2005 to approximately $1,361,000 for the nine months ended September 30, 2006 due to the increased amortization of software development costs;

we incurred liquidated damage penalties of approximately $49,000 in connection with our failure to meet certain contractual registration obligations; and

our interest expense increased approximately $45,000 for the nine months ended September 30, 2006 due to a loan agreement that was entered into in order to fund our working capital deficit.

Table of Contents

Our net income increased approximately $1,594,000 from a net loss of approximately $1,593,000 for the nine months ended September 30, 2005 to a net income of approximately $1,000 for the nine months ended September 30, 2006. This increase is mainly attributed to the valuation gain of approximately $1,110,000 we recognized from the fair value adjustment of our derivative liabilities during the nine months ended September 30, 2006. We do anticipate, however, this valuation gain to be temporary. If our stock price rebounds during the fourth quarter of 2006 to a level consistent with our stock price at December 2005, the fair value of the derivative liabilities will increase and therefore, the valuation gain recognized during the nine months ended September 30, 2006 will reverse and we will again reflect a year-to-date valuation loss (see *Derivatives*).

Offsetting to some degree the negative results of operations detailed above were three positive developments during the nine months ended September 30, 2006. First, our registration statement on Form SB-2, originally filed on November 22, 2004, was declared effective by the SEC on February 1, 2006, and therefore, the liquidated damage penalties stopped accruing. Second, we released our annual upgrade of our QuickVerse® (Windows) product line which will reach the retail stores prior to the holiday season beginning. Third, we were able to remain operating cash positive despite our decrease in gross revenues for the nine months ended September 30, 2006.

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 arrangement exists For revenue arrangements involving multiple products or product and service packages, we allocate and defer revenue for the undelivered products or product and service packages based on their vendor-specific objective evidence of fair value, which is generally the price charged when that product or product and service package 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 61% of our 2005 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 nine months ended September 30, 2005 and 2006, 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.

Table of Contents

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. 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. Although we released QuickVerse® 2007 in late August 2006 to the Christian Booksellers Association retail channel, we did not implement a price protection program within the three months ended September 30, 2006 on our QuickVerse® 2006 titles. Furthermore, we do no anticipate implementing a price protection program in the near future.

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.

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

Revenues for Three Months Ended September 30	**2006**	**% to Sales**	2005	% to Sales	Change	%
Gross revenues	**$ 910,896**	**100%**	$ 1,233,389	100%	$ (322,493)	26%
Add rebate adjustment	**---**	**0%**	4,910	0%	(4,910)	100%
Less reserve for sales returns and allowances	**(84,769)**	**-9%**	(214,690)	-17%	129,921	61%
Net revenues	**$ 826,127**	**91%**	$ 1,023,609	83%	$ (197,482)	19%

Revenues for Nine Months Ended September 30	**2006**	**% to Sales**	2005	% to Sales	Change	%
Gross revenues	**$ 2,793,594**	**100%**	$ 4,744,759	100%	$ (1,951,165)	41%
Add rebate adjustment	**---**	**0%**	14,730	0%	(14,730)	100%
Less reserve for sales returns and allowances	**(207,397)**	**-7%**	(781,470)	-16%	574,073	73%
Net revenues	**$ 2,586,197**	**93%**	$ 3,978,019	84%	$ (1,391,822)	214%

Gross revenues decreased approximately $322,000 from approximately $1,233,000 for the three months ended September 30, 2005 to approximately $911,000 for the three months ended September 30, 2006 and decreased approximately $1,951,000 from approximately $4,745,000 for the nine months ended September 30, 2005 to approximately $2,794,000 for the nine months ended September 30, 2006. We believe that this decrease was primarily attributable to the lack of product releases during the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005, and most notably the prolonged delay in our annual release of Membership Plus®. During 2005 and 2006, the following products were released during our first, second and third quarters, respectively:

First Quarter 2005

- an enhanced version of our top financial and data management product, Membership Plus®, including Membership Plus® Standard Edition, with a suggested retail price of $149.95, and Membership Plus® Deluxe Edition, with a suggested retail price of $349.95;
- an enhanced version of QuickVerse® 2005 Essentials, with a suggested retail price of $49.95; and
- QuickVerse® 2005 Platinum Edition, with a suggested retail price of $799.95.

Second Quarter 2005

- QuickVerse® 2006 Macintosh, including QuickVerse® 2006 Macintosh Black Box Edition, with a suggested retail price of $99.95, and QuickVerse® 2006 Macintosh White Box Edition, with a suggested retail price of $49.95; and
- an enhanced version of Bible Illustrator® 3.0 entitled Sermon Builder® 4.0, with a suggested retail price of $69.95.

Third Quarter 2005

- an enhanced version of our flagship product, QuickVerse®, including QuickVerse® 2006 Essentials with a suggested retail price of $49.95, QuickVerse® 2006 Standard with a suggested retail price of $99.95, QuickVerse® 2006 Expanded with a suggested retail price of $199.95, QuickVerse® 2006 Deluxe with a suggested retail price of $299.95 and QuickVerse® 2006 Platinum with a suggested retail price of $799.95.

First Quarter 2006

- QuickVerse® 2006 Parable Edition, with a suggested retail price of $49.95; and
- QuickVerse® 2006 Bible Suite, with a suggested retail price of $29.95.

Second Quarter 2006

- QuickVerse® 2006 Macintosh Gold Box Edition, with a suggested retail price of $349.95; and
- Holman Christian Standard Bible®, with a suggested retail price of $29.95.

Third Quarter 2006

- an enhanced version of our flagship product, QuickVerse®, including QuickVerse® 2007 Bible Suite with a suggested retail price of $39.95, QuickVerse® 2007 Essentials with a suggested retail price of $59.95, QuickVerse® 2007 Standard with a suggested retail price of $129.95, QuickVerse® 2007 Expanded with a suggested retail price of $249.95, QuickVerse® 2007 Deluxe with a suggested retail price of $349.95 and QuickVerse® 2007 Platinum with a suggested retail price of $799.95.

Of note, and generally, the retail price points for our products released during the nine months ended September 30, 2006 were significantly less than those released during the nine months ended September 30, 2005. Furthermore, due to the unexpected loss of our primary developer for Membership Plus® in May 2005, we have experienced a delay in our annual release of Membership Plus®, which had historically been released in the month of February. Membership Plus® 2007 was released in October 2006, following the close of our third quarter. Finally, we believe we experienced a decrease in gross revenues due to the annual early releases of our flagship product, QuickVerse®, which in turn has resulted in an overall net decrease in unit sales. QuickVerse® 2007 Windows was released in August 2006, eleven months following our 2005 QuickVerse® upgrade release and QuickVerse® 2006 Windows was released in September

2005, nine months following our 2004 QuickVerse® upgrade release. In the past, we have experienced greater sales within the first and second quarter of the fiscal year due to the then recent upgrade releases of our two main product lines, QuickVerse® and Membership Plus®.

Table of Contents

During each of the quarters ended September 30, 2005 and 2006, our sales efforts were focused on directly targeting end-users through telemarketing and Internet sales. Due to the consistency in our development schedule and the annual releases of our flagship product, QuickVerse®, upgrade sales are not increasing at a rapid rate. However, we anticipate that revenues will increase going forward as we continue to expand the content available for our QuickVerse® products, develop new products for multiple platforms, and offer our products at a range of price points intended to appeal to various market sub-segments.

Sales returns and allowances decreased approximately $130,000 from approximately $215,000 for the three months ended September 30, 2005 to approximately $85,000 for the three months ended September 30, 2006, and decreased approximately $574,000 from approximately $781,000 for the nine months ended September 30, 2005 to approximately $207,000 for the nine months ended September 30 2006. Sales returns and allowances also decreased as a percentage of gross sales from approximately 17% for the nine months ended September 30, 2005 to approximately 7% for the nine months ended September 30, 2006. While this decrease reflects lower actual returns during the nine months ended September 30, 2006, it is mainly attributable to our relative lack of product releases during this period. Typically after a new product release, sales returns and allowances trend upward as distributors and retail stores return old product in exchange for the new product release. With QuickVerse® 2006 Windows shipping in September 2005 as compared to QuickVerse® 2005 Windows in December 2004, just nine months earlier, we experienced a greater increase in sales returns and allowances during the fourth quarter of 2005. Furthermore, sales returns and allowance for the nine months ended September 30, 2005 reflect the release of Membership Plus® 2005 compared to no release of the Membership Plus® product line for the nine months ended September 30, 2006. In addition, due to the extended time-line between the releases of the Membership Plus® product line, we have experienced fewer returns from retail stores as there is no new product with which to exchange the old product. During the nine months ended September 30, 2005 the following items contributed to the sales returns and allowances:

- price protections afforded to consumers and retailers who had purchased prior versions of Membership Plus® and QuickVerse® within one year or less of our release of upgraded versions of each of Membership Plus®, in February 2005, and QuickVerse®, in September 2005. Historically, our product upgrades have extended over two to three years and therefore, price protections were not issued;
- increased prices associated with products introduced; and
- higher actual returns on the Membership Plus® 2005 product line due to some then unresolved maintenance issues and the loss of our primary developer of Membership Plus®.

Overall, we expect to release enhanced versions of our biggest-selling products on an annual basis generally going forward, and anticipate sales returns and allowances as a percentage of gross revenues to decrease over time as a result of increased stability in the functionality of our products, decreasing reliance on retail sales and increasing reliance on direct sales, which have historically resulted in fewer returns, and improved planning in the timing of new product version releases.

Cost of Sales

Cost of Sales for Nine Months Ended September 30	**2006**	**% to Sales**	2005	% to Sales	Change	%
Direct costs	**$ 372,033**	**13%**	$ 485,674	10%	$ (113,641)	23%
Less reserve for sales returns and allowances	**(30,810)**	**-1%**	(116,940)	-2%	86,130	74%
Amortization of software development	**600,959**	**22%**	524,989	11%	75,970	14%

costs						
Royalties	**256,737**	**9%**	300,000	6%	(43,263)	14%
Freight-out	**76,218**	**3%**	111,188	2%	(34,970)	31%
Fulfillment	**86,020**	**3%**	105,280	2%	(19,260)	18%
Cost of sales	**$ 1,361,157**	**49%**	$ 1,410,191	30%	$ (49,034)	3%

Table of Contents

Cost of sales consists primarily of royalties paid to third party providers of intellectual property and the direct costs and manufacturing overhead required to reproduce, package, fulfill and ship our software products. Direct costs and manufacturing overhead also include amortized software development costs and non-capitalized technical support wages. The direct costs and manufacturing overhead decreased approximately $6,000 from approximately $1,110,000 for the nine months ended September 30, 2005 to approximately $1,104,000 for the nine months ended September 30, 2006 and increased as a percentage of gross revenues approximately 16% for the nine months ended September 30, 2006. The overall percentage increase resulted directly from amortization of software development costs. The amortization recognized during the nine months ended September 30, 2006 resulted from several new software releases in 2005 and 2006 including Membership Plus® 2005, QuickVerse® 2006 Macintosh, Sermon Builder® 4.0, QuickVerse® 2006 Windows, QuickVerse® 2006 Mobile, QuickVerse® 2006 Bible Suite, QuickVerse® 2006 Macintosh Gold Edition, Holman Christian Standard Bible® and QuickVerse 2007® Windows. The shorter timeframes between our product upgrades along with the increased amount of product releases during the fiscal year 2005 led to the increased amount of amortization recognized. During the nine months ended September 30, 2005 we continued to amortize the December 2004 release of QuickVerse® 2005 Windows, the February 2005 release of Membership Plus® 2005, the June 2005 releases of QuickVerse® Macintosh and Sermon Builder® 4.0, the late September 2005 release of QuickVerse® 2006 and the remainder of QuickVerse® 8.0 and Membership Plus® 8.0. The direct costs and manufacturing overhead percentage are expected to continue at these levels as more development projects are implemented in a shortened timeframe.

Fulfillment costs from a third-party warehouse and included in the manufacturing overhead costs noted above decreased approximately $19,000 from approximately $105,000 for the nine months ended September 30, 2005 to approximately $86,000 for the nine months ended September 30, 2006. This decrease is a direct result of decreased sales volume. Furthermore, our fulfillment center continues to improve its efficiency which has led to the lower rate in fulfillment costs.

Similar to the fulfillment costs, freight costs, included in the manufacturing overhead costs noted above, decreased approximately $35,000 from approximately $111,000 for the nine months ended September 30, 2005 to approximately $76,000 for the nine months ended September 30, 2006. This decrease, too, is related to the decrease in sales volume.

Royalties paid to third party providers of intellectual property decreased approximately $43,000 from approximately $300,000 for the nine months ended September 30, 2005 to approximately $257,000 for the nine months ended September 30, 2006 and increased approximately 3% as a percentage of gross revenues for the nine months ended September 30, 2006. The overall percentage increase in royalties paid for the nine months ended September 30, 2006 reflects the following:

- sales of QuickVerse® 2005 editions to a liquidator in the first and third quarters of 2006 and no sales to a liquidator in the first and third quarters of 2005;
- our increased sales focus on the QuickVerse® product line which have associated royalty fees;
- an increase in retail sales for the QuickVerse® 2007 product line during the month of September 2006 compared to only upgrade sales for the QuickVerse® 2006 product line during the same time frame in 2005; and
- our decreased sales focus on the Membership Plus® product line, which has no associated royalty fees. We have experienced a delay in our annual upgrade release of Membership Plus® 2007 and, during the first quarter of 2005, we released an upgrade to Membership Plus® in February 2005.

The royalty rate as a percentage of gross sales is expected to increase in the future as sales to new users are expected to increase, more development projects are implemented for new and/or enhanced products, and as we continue to expand the content available for our QuickVerse® line of products. Upgrade sales will remain only subject to royalties on their content additions.

We expect all cost of sales will increase in the future as we also anticipate revenues will increase going forward based upon our development schedule and the broadened content made available for our QuickVerse® products.

Table of Contents

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 deemed to constitute development, and, accordingly, the costs of the revision and upgrade are capitalized. Capitalized costs are amortized on a product-by-product basis using the greater of (i) straight-line amortization over the estimated life of the product or (ii) 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.

Our software development costs for the three and nine months ended September 30, 2005 and 2006 are summarized in the table below. These costs, consisting primarily of direct and indirect labor and related overhead charges, capitalized during the three months ended September 30, 2005 and 2006, were approximately $172,000 and approximately $174,000, respectively, and during the nine months ended September 30, 2005 and 2006, were approximately $766,000 and approximately $412,000, respectively. Accumulated amortization of these development costs, which were included in cost of sales, totaled approximately $161,000 and approximately $143,000 for the three months ended September 30, 2005 and 2006, respectively, and approximately $525,000 and approximately $601,000 for the nine months ended September 30, 2005 and 2006, respectively. The overall increase in the amortization is a result of the shorter timeframes between our product upgrades along with the increased amount of product releases. Furthermore, the overall decrease in the capitalized costs reflects the decreased amount of product releases for the nine months ended September 30, 2006 as well as that during the nine months ended September 30, 2005 we were capitalizing the development costs related to our QuickVerse® Macintosh product line which was our first product line for the Macintosh platform.

Software Development Costs for	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2006	2005	**2006**	2005
Beginning balance	**$ 487,849**	$ 931,103	**$ 707,067**	$ 701,289
Capitalized	**173,728**	171,990	**412,108**	766,151
Amortized (Cost of sales)	**143,361**	160,642	**600,959**	524,989
Ending Balance	**$ 518,216**	$ 942,451	**$ 518,216**	$ 942,451
Research and development expense (General and administrative)	**$ 47,393**	$ 63,164	**$ 131,013**	$ 130,407

Sales, General and Administrative

Sales, General and Administrative Costs for Nine Months Ended September 30	**2006**	**% to Sales**	2005	% to Sales	Change	%
Selected expenses:						
Commissions	**$ 151,499**	**5%**	$ 611,653	13%	$ (460,154)	75%
Advertising and direct marketing	**156,537**	**6%**	419,217	9%	(262,680)	63%
Sales and marketing wages, reclassified	**272,648**	**10%**	266,966	6%	5,682	2%
Total sales and marketing	**$ 580,684**	**21%**	$ 1,297,836	27%	$ (717,152)	55%

Research and development	**131,013**	**5%**	130,407	3%	606	0%
Personnel costs	**564,825**	**20%**	572,688	12%	(7,863)	1%
Legal	**83,539**	**3%**	157,970	3%	(74,431)	47%
Accounting	**48,505**	**2%**	22,031	0%	26,474	120%
Rent	**74,260**	**3%**	57,387	1%	16,873	29%
Telecommunications	**28,967**	**1%**	42,605	1%	(13,638)	32%
Corporate services	**54,000**	**2%**	73,972	2%	(19,972)	27%
Investor services	**55,000**	**2%**	---	0%	55,000	0%
Other general and administrative costs	**270,231**	**10%**	361,997	8%	(91,766)	25%
Total general and administrative	**$ 1,310,340**	**47%**	$ 1,419,057	30%	$ (108,717)	8%

-20-

Table of Contents

With gross revenues decreasing approximately $1,951,000 from our nine months ended September 30, 2005 to our nine months ended September 30, 2006, total sales, general and administrative costs also decreased approximately $826,000 from approximately $2,717,000 for the nine months ended September 30, 2005 to approximately $1,891,000 for the nine months ended September 30, 2006. Of the total sales, general and administrative costs, sales and marketing expenses decreased approximately $717,000 from approximately $1,298,000 for the nine months ended September 30, 2005 to approximately $581,000 for the nine months ended September 30, 2006. Included in sales expenses, third-party telemarketing commissions decreased approximately $460,000 from approximately $612,000 for the nine months ended September 30, 2005 to approximately $152,000 for the nine months ended September 30, 2006, and decreased as a percentage of gross revenues from approximately 13% to approximately 5% for the nine months ended September 30, 2005 and 2006, respectively. This decrease is mainly attributed to the lack of product releases during the nine months ended September 30, 2006, as well as the use of our own in-house direct telemarketing sales team which was developed specifically to reduce our reliance on third-party telemarketing services.

Advertising and direct marketing costs decreased approximately $263,000 from approximately $419,000 for the nine months ended September 30, 2005 to approximately $156,000 for the nine months ended September 30, 2006 and decreased as a percentage of gross revenues from approximately 9% to approximately 6% for the nine months ended September 30, 2005 and 2006, respectively. The decrease in advertising and direct marketing costs reflect that there was no upgrade release to the Membership Plus® product line in the nine months ended September 30, 2006 as compared to the Membership Plus® 2005 release in the nine months ended September 30, 2005, as well as an overall decrease in the number of product releases during the nine months ended September 30, 2006 compared to that of the nine months ended September 30, 2005. Advertising and direct marketing costs are expected to increase in future periods as we continue to enhance our product visibility online, increase and focus more on our direct marketing efforts, and increase the scope and frequency of our print advertising campaigns in order to maximize sales associated with new products and product enhancements throughout the coming year. Wages associated with our sales team and marketing team have been reclassified and are included in the total sales and marketing costs. The reclassified sales and marketing wages increased approximately $6,000 from approximately $267,000 for the nine months ended September 30, 2005 to approximately $273,000 for the nine months ended September 30, 2006. This increase is attributed to our recent expansion of our marketing team, and we expect these wages to increase in future periods as we expand our in-house direct telemarketing sales team.

Research and development costs include 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). Software development costs related to third-party developers and direct labor expensed as research and development (see table above) amounted to approximately $63,000 for the three months ended September 30, 2005 compared to approximately $47,000 for the three months ended September 30, 2006 and approximately $130,000 for the nine months ended September 30, 2005 compared to approximately $131,000 for the nine months ended September 30, 2006. The slight increase in 2006 reflects the capitalization of less research and development costs for the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005. During the nine months ended September 30, 2005, we were capitalizing the development costs related to our QuickVerse® Macintosh product line, which was our first product line for the Macintosh platform. In addition, during the nine months ended September 30, 2005 we had more development projects underway compared to the nine months ended September 30, 2006 as well as more research and development costs associated with maintenance issues on titles after they were released to the general public. Research and development expenses are expected to increase in future periods as we continue to expand our internal development team, add new products and product versions, and as we continue to expand the array of platforms upon which our products are made available.

Total personnel costs decreased approximately $8,000, from approximately $573,000 for the nine months ended September 30, 2005, to approximately $565,000 for the nine months ended September 30, 2006. In addition, direct salaries and wages decreased approximately $60,000, from approximately $1,208,000 to approximately $1,148,000, over the same period. The decrease in direct salaries and wages was a result of losing our main developer for our Membership Plus® product line as well as the loss of our marketing manager. Due to a cost cutting initiative, we also lost our Vice President of Sales and Marketing and an individual on our product development staff. However, we do anticipate direct salaries and wages to increase in the future, as we are still focused on expanding our sales team, including additions to our own telemarketing sales team, our marketing staff and further expansion of our product development staff. As a percentage of gross revenues, direct salaries and wages increased approximately 16% from approximately 25% for the nine months ended September 30, 2005 to approximately 41% for the nine months ended September 30, 2006.

Table of Contents

As a result of having restructured our health benefits plans in October 2005, our employment-related health care costs have decreased approximately $20,000 from approximately $105,000 for the nine months ended September 30, 2005 to approximately $85,000 for the nine months ended September 30, 2006. In July 2005, we initiated a Simple IRA retirement plan for our employees and for those who participated we decided to match up to 3% of the employee's annual gross pay. Therefore, we anticipate that our costs related to this benefit will increase in future periods as more employees take advantage of the retirement plan.

The capitalization of direct and indirect labor and related overhead charges as software development costs (see "Cost of Sales" above) decreased by approximately $144,000 from approximately $370,000 for the nine months ended September 30, 2005 to approximately $226,000 for the nine months ended September 30, 2006. This decrease reflects the development of our QuickVerse® Macintosh product line during the nine months ended September 30, 2005, which was our first product line for the Macintosh platform. It is anticipated that personnel costs will continue to increase in future periods as operating capital is available and deployed to further fund the staffing requirements of our product development, direct sales teams and marketing staff.

Direct legal costs decreased approximately $74,000 for the nine months ended September 30, 2006 as a result of this registration statement, originally filed on November 22, 2004, having been declared effective by the SEC on February 1, 2006, thereby curtailing the previously ongoing SEC review and comment process. It is anticipated that legal costs will increase in future periods as we continue to meet our ongoing SEC reporting and corporate governance obligations, possibly raise additional capital, and pursue our business plan for growth by potentially acquiring other companies or product lines and potentially selling off others.

Accounting and audit related expenses increased approximately $26,000 for the nine months ended September 30, 2006 as a result of engaging a new principal accounting firm for our fiscal year end 2005 audit. It is anticipated that accounting costs will continue to increase in the future as we expect that our fees payable to the new principal accounting firm, which we expect to utilize on an ongoing basis, will generally be higher than those payable to our former accounting firm.

Rent costs increased approximately $17,000 for the nine months ended September 30, 2006 as a result of periodic percentage increase provisions in our leases agreements. It is anticipated that rent cost will continue to increase similarly in the future as our lease agreement for our office/warehouse facilities in Omaha, Nebraska extends through May 2007 and our lease agreement for our office space in Naperville, Illinois extends through March 2007.

Telecommunications costs decreased approximately $14,000 for the nine months ended September 30, 2006 as a result of our having switched our local and long-distance carriers beginning in February 2005. Our call volume enabled us to change our service to dedicated T-1 lines which in turn reduced our long-distance charges. We also invested in internet protocol phones for our remote locations which reduced the overall local and long distance charges in our Illinois and Iowa locations. Furthermore, we experienced a decrease in call volume in the technical support and customer service departments for the nine months ended September 30, 2006 due to the delayed Membership Plus® upgrade release. We anticipate our call volume to increase during the fourth quarter of 2006 and the first quarter of 2007 as Membership Plus® 2007 was released in October 2006.

Corporate service fees decreased approximately $20,000 for the nine months ended September 30, 2006 resulting from the expiration of an independent consulting agreement and the resultant ability on our part to cease carrying the associated expense for a 2004 issuance to such consultant of a warrant to purchase 600,000 shares of common stock which had been allocated over the term of the agreement. We currently engage the services of an independent consultant for purposes of investor relations and therefore expect these fees to increase in future periods as their activities on our behalf ramp-up and become an increasingly important aspect of our corporate objectives.

-22-

Table of Contents

Finally, investor services fees increased approximately $55,000 for the nine months ended September 30, 2006 as we entered into an investor relations service agreement in April 2006. These fees are related to the hiring of an investor relations firm and the expense for the issuance of a total of 500,000 restricted shares of common stock allocated over the term of the investor relations contract. We anticipate these fees to increase in future periods.

Registration Rights Penalties

As of September 30, 2006, and in connection with a July 19, 2004 private placement with Barron Partners, LP and a certain Registration Rights Agreement, as amended, we had accrued a total of approximately $490,000 (284 days at $1,726 per day) in penalties under the terms of the Registration Rights Agreement, of which we paid $150,000 prior to April 7, 2006. On April 7, 2006, we signed a two-year promissory note for $336,000 together with simple interest at the rate of 8% per annum with Barron Partners for the unpaid registration rights penalties. The note agreement calls for monthly installments for the first twelve months of $10,000, beginning May 1, 2006 and $20,000 per month thereafter. The accrual of and payment on the registration rights penalties has had a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations, including a corresponding decrease in our net income of approximately $49,000 for the nine months ended September 30, 2006.

Derivatives

In May 2004, we issued a three-year warrant to purchase up to 600,000 shares of our common stock to a consultant. This warrant may be exercised on a cashless basis at the option of the holder at a price per share of $0.15. In November 2004, we issued two five-year warrants to purchase an aggregate of 21,875,000 shares of our common stock in connection with a certain Stock Purchase Agreement completed with Barron Partners, LP on July 19, 2004. The first warrant entitles the holder to purchase up to 10,937,500 shares of our 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 our common stock at a price of $0.60 per share. Each warrant is subject to standard adjustment provisions and each provides for settlement in registered shares of our common stock and may, at the option of the holder, be settled in a cashless, net-share settlement. These warrants have been accounted for as a liability according to the guidance of EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. In accordance with the accounting mandate, the derivative liability associated with these warrants has been, and shall continue to be, until each is either fully exercised or expires, adjusted to fair value at each balance sheet date and is accordingly reassessed at each such time to determine whether the warrants should be classified (or reclassified, as appropriate) as a liability or as equity. Under EITF 00-19, a decrease in our stock price results in a decrease in the fair value of the derivative liability and a valuation gain to be recognized in our income statement whereas an increase in our stock price results in an increase in the fair value of the derivative liability and a valuation loss to be recognized in our income statement. At September 30, 2006, the fair value of the derivative liability was approximately $953,000, fair value adjustments of approximately $328,000 and approximately $875,000 have been included in other expenses for the three and nine months ended September 30, 2005, respectively, and fair value adjustments of approximately $237,000 and approximately $1,110,000 have been included in other income for the three and nine months ended September 30, 2006, respectively. If our stock price rebounds in the future to a level consistent with our stock price at December 2005, the fair value of the derivative liability will increase and therefore, the valuation gain recognized during the three and nine months ended September 30, 2006 will decrease and/or reverse and we could potentially reflect a valuation loss.

Amortization

Amortization expenses remained steady at approximately $133,000 and approximately $399,000 for the three and nine months ended September 30, 2005 and 2006, respectively. The software license acquired from TLC in July of 1999 (the "1999 license") is amortized over a 10 year useful life. Amortization expenses for 2005 and 2006 reflect the continual amortization of the software license as well as the amortization of our website, www.quickverse.com, which we launched 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.

Table of Contents

We have recognized a net deferred tax asset whose realization depends on generating future taxable income. At September 30, 2006, management adjusted the amount of valuation allowance based on the assessment that we will produce sufficient income in the future to realize the economic benefit of 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 $8,468,000. The carryforwards are the result of income tax losses generated in 2000 ($2,086,000 expiring in 2020), 2001 ($5,191,000 expiring in 2021), 2002 ($235,000 expiring in 2022) and 2005 ($956,000 expiring in 2025). We will need to achieve a minimum annual taxable income, before deduction of operating loss carryforwards, of approximately $527,000 to fully utilize the current loss carryforwards. Although there can be no assurance, we believe this is achievable through careful expense management and continued introduction of new products and enhanced versions of our existing products.

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

Liquidity And Capital Resources

Our primary needs for liquidity and capital resources are the funding of our continued operations, which includes the ongoing internal development of new products, expansion and upgrade of existing products, and marketing and sales. We believe our future cash provided by operations will be sufficient to fund our continued operations. However, our pursuit of future strategic product line and/or corporate acquisitions and licensing opportunities will require funding from outside sources. Funding from outside sources may include but is not limited to the exercise of outstanding warrants and pursuit of other financing options such as commercial loans, common stock and/or preferred stock issuances and convertible notes. At this time, we have no legally committed funds for future capital expenditures including software development.

Working Capital at September 30	**2006**
Current assets	**$ 658,101**
Current liabilities	**$ 2,866,445**
Retained deficit	**$ (7,750,886)**

As of September 30, 2006, we had approximately $658,000 in current assets, approximately $2,866,000 in current liabilities and a retained deficit of approximately $7,751,000. We had net income of approximately $26,000 for the three months ended September 30, 2006 and net income of approximately $1,000 for the nine months ended September 30, 2006, respectively. For the three and nine months ended September 30, 2006, we had registration rights penalties of $-0- and approximately $49,000, respectively, and a related gain of approximately $237,000 and approximately $1,110,000, respectively, from the fair value adjustment of derivatives. See "Results Of Operations" above.

Cash Flows for Nine Months Ended September 30	**2006**	2005	Change	%
Cash flows provided by operating activities	**$ 291,051**	$ 479,934	$ (188,883)	39%
Cash flows (used) by investing activities	**$ (425,063)**	$ (750,851)	$ 325,788	43%
Cash flows provided (used) by financing activities	**$ 15,444**	$ (30,604)	$ 46,048	150%

Net cash provided by operating activities was approximately $291,000 for the nine months ended September 30, 2006, and approximately $480,000 for the nine months ended September 30, 2005. The decrease was primarily due to a decrease in the amounts received from customers resulting from decreased sales and a temporary decrease in payments to trade vendors and content providers.

Net cash used in investing activities was approximately $425,000 for the nine months ended September 30, 2006 and approximately $751,000 for the nine months ended September 30, 2005. The decrease was mainly the result of capitalizing fewer costs associated with software development.

Table of Contents

Net cash provided by financing activities was approximately $15,000 for the nine months ended September 30, 2006, and net cash used by financing activities was approximately $31,000 for the nine months ended September 30, 2005. Both years reflect payments made on long-term notes payable. However, the nine months ended September 30, 2006 reflect proceeds received from a note payable.

Financing

As part of the July 19, 2004 financing transaction with Barron Partners, LP, we entered into a certain Registration Rights Agreement pursuant to which we became committed to registering all of the shares issued as part of such transaction, including those issuable under each of two warrants. On November 22, 2004 we originally filed this registration statement, which covers the shares issued to Barron Partners, as well as the shares underlying the warrants issued to Barron Partners. On February 1, 2006, the SEC declared this registration statement effective. Due to continued delays in effectiveness of this registration statement however (due principally to ongoing efforts made necessary by our determination to restate certain of our historical financial information), and in accordance with the Registration Rights Agreement, we accrued a total of approximately $490,000 (284 days at $1,726 per day) in penalties, of which we had paid $150,000 prior to April 7, 2006. On April 7, 2006, we issued a two-year promissory note for $336,000 together with simple interest at the rate of 8% per annum to Barron Partners for the unpaid registration rights penalties. The note agreement calls for monthly installments for the first twelve months of $10,000, beginning May 1, 2006 and $20,000 per month thereafter. The accrual and payment on the registration rights penalties has had a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations, including a corresponding $49,000 decrease in our net income for the nine months ended September 30, 2006.

On July 20, 2006, we entered into a loan agreement with an individual, for the principal sum of $150,000, to fund an existing working capital deficit. The loan was evidenced by a convertible secured promissory note bearing interest at a rate of 10% per thirty-day period with the principal, together with all accrued interest, due on or before September 18, 2006. In further consideration of the loan, we issued the lender a three-year common stock purchase warrant to acquire up to an aggregate of 100,000 shares of our common stock at an exercise price of $0.07 per share. On September 19, 2006, we entered into a Modification and Extension Agreement in connection with this note. As of the original maturity date and in accordance with the original terms of the loan agreement, we repaid fifty percent of the original principal ($75,000). This Modification and Extension Agreement extended the repayment term of the balance of the outstanding principal under the loan agreement ($75,000), as well as the interest payable thereon and on the principal previously repaid, until October 20, 2006. In consideration for the extension of the maturity date, we agreed to pay an amount equal to one percentage point on the principal that remains outstanding ($750). On October 19, 2006, in connection with the above-mentioned loan, we repaid in full the remaining principal ($75,000), the interest payable on the original principal amount of $150,000 ($35,416.67) and the consideration payable for the extension of the maturity date ($750).

We have been unsuccessful in previous attempts to secure bank financing due to our internal financial ratios and negative working capital position and do not expect that we will be successful in securing any such financing unless and until our ratios in this regard improve. Although we have, in the past, secured financing on our open accounts receivable, we were unable to pursue that option because of a lien placed upon our accounts receivable, together with all of our other assets, in connection with the security interest granted to the lender for the July 20, 2006 loan. As of October 19, 2006, however, this loan was retired in full and financings secured against our open accounts receivable may once again, therefore, be a possible option for us in satisfying our future financing needs.

Contractual Liabilities

We lease office space/warehouse facilities in Omaha, Nebraska under an operating lease with a third-party with terms extending through 2007. We are responsible for all taxes, insurance and utility expenses associated with this lease. There is no lease renewal option contained in the lease.

We lease office space in Naperville, Illinois under an operating lease with a third-party with terms extending through March 2006. We are responsible for all insurance expenses associated with this lease.

Table of Contents

At September 30, 2006, the future minimum rental payments required under these leases are as follows:

2006	$ 20,333
2007	31,248
Total future minimum rental payments	$ 51,581

We lease telephone equipment under a capital lease expiring in November 2009. The asset and liability under the capital lease are recorded at the present value of the minimum lease payments. The asset is depreciated over a 5 year life. Minimum future lease payments under capital leases as of September 30, 2006 for each of the next five years and in the aggregate are:

2006	$ 3,432
2007	13,726
2008	13,726
2009	12,582
2010	---
Total minimum lease payments	43,466
Less: Amount representing interest	7,282
Total obligations under capital lease	36,184
Less: Current installments of obligations under capital lease	10,023
Long-term obligation under capital lease	$ 26,161

The Potential Impact of Known Facts, Commitments, Events and Uncertainties on Future Operating Results or Future Liquidity Requirements

New Accounting Pronouncements

In the past, we have applied Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations in accounting as allowed by SFAS No 123, *Accounting for Stock Based Compensation*, for various forms of share-based awards including incentive and nonqualified stock options and stock appreciation rights attached to stock options; and therefore, no compensation cost had been recognized. However, in December 2004, the FASB issued SFAS No 123 (R), *Share-Based Payment*, which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123 (R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the fair value on the grant date of the equity or liability instruments issued. Compensation cost will be recognized over the period that the service is provided for that award. This new standard became effective for us in the first quarter of fiscal year 2006.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140*. The Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. The new Statement also requires companies to identify interests in securitized financial assets that are freestanding derivatives or contain embedded derivatives that would have to be accounted for separately. This new Statement is effective for fiscal years beginning after September 15, 2006 with early adoption permitted. We do not expect the adoption of SFAS 155 to have a material impact on our business, our financial condition, including liquidity and profitability, or our results of operations.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets, an amendment of Statement No. 14 (SFAS 156)*. SFAS 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to subsequently measure those servicing assets and servicing liabilities at fair value. SFAS 156 is effective for fiscal years beginning after September 15, 2006. We do not expect the adoption of SFAS 156 to have a material impact on our business, our financial condition, including liquidity and profitability, or our results of operations.

Table of Contents

In April 2006, the FASB issued Staff Position FIN 46(R)-6, *Determining Variability to be Considered in Applying FIN 46(R)*. FIN 46(R)-6 states that the variability to be considered in applying FIN 46(R) shall be based on an analysis of the design of the entity following a two-step process. The first step is to analyze the nature of the risks in the entity. The second step would be to determine the purpose(s) for which the entity was created and determine the variability (created by the risks identified in Step 1) the entity is designed to create and pass along to its interest holders. The guidance in this FASB Staff Position is effective prospectively beginning July 1, 2006, although companies have until December 31, 2006 to elect retrospective applications. We do not expect FIN 46(R)-6 to have a material impact on our business, our financial condition, including liquidity and profitability, or our results of operations.

In July 2006, the FASB released FIN 48, *Accounting for Uncertainty in Income Taxes - an interpretation of SFAS 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS 109. This interpretation prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, interim periods and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will adopt FIN 48 as of January 1, 2007 and we do not expect the adoption to have a material impact on our business, our financial condition, including liquidity and profitability, or our results of operations.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently assessing the potential impact that adoption of SFAS 157 will have on our financial statements.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R) ("SFAS 158")*. This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS 158 is effective for financial statements issued for fiscal years ending after December 15, 2006. We do not expect the adoption of SFAS 158 to have a material impact on our business, our financial condition, including liquidity and profitability, or our results of operations.

Table of Contents

FISCAL YEAR ENDED DECEMBER 31, 2005 COMPARED WITH FISCAL YEAR ENDED DECEMBER 31, 2004

The following discussion should be read together with our consolidated financial statements for the period ended December 31, 2005 and the notes to the consolidated financial statements.

Results of Operations for Years Ended December 31, 2005 and December 31, 2004

Statement of Operations for Years Ended December 31	**2005**	2004	Change	%
Net revenues	**$ 5,337,342**	$ 5,322,842	$ 14,500	0%
Cost of sales	**1,973,944**	1,721,298	252,646	15%
Gross profit	**3,363,398**	3,601,544	(238,146)	-7%
Total operating expenses	**(4,425,429)**	(4,177,705)	(247,724)	6%
Other income	**14,855**	1,012,744	(997,889)	-99%
Other adjustments	**(436,686)**	(154,569)	(282,117)	183%
Loss on fair value adjustment of derivatives	**(33,797)**	(291,672)	257,875	-88%
Other expenses	**(12,898)**	(42,148)	29,250	-69%
Loss before income taxes	**(1,530,557)**	(51,806)	(1,478,751)	2854%
Provision for income taxes	**(50,709)**	1,015,859	(1,066,568)	-105%
Net income (loss)	**$ (1,581,266)**	$ 964,053	$ (2,545,319)	-264%

Despite a modest increase in our gross revenue, our net loss before income taxes increased approximately $1,479,000 from a loss of approximately $52,000 for the year ended December 31, 2004 to a loss of approximately $1,531,000 for the year ended December 31, 2005. Further, we incurred a net loss of approximately $1,581,000 for the year ended December 31, 2005, representing a reduction of approximately $2,545,000 in our net income of approximately $964,000 for the year ended December 31, 2004. These negative results of operations are primarily attributable to the following:

1) For the year ended December 31, 2004:

a) write downs of each the following:

§ a reserve for rebates payable from a change in accounting estimate of approximately $142,000 (and recognized as an adjustment to revenue);

§ actual rebates payable of approximately $61,000 due to an overstatement (and recognized as an adjustment to revenue); and

§ obsolete inventory of approximately $32,000 (which is included in cost of sales);

b) we recognized a gain of approximately $1,000,000 from extinguishment of debt (classified as other income) which resulted from our having settled with various vendors and content providers for lump-sum payments at reduced amounts of balances previously owed;

c) we recognized an expense of approximately $155,000 (classified as other adjustments) related to a settlement with an institutional private equity investor; and

d) we recognized a loss of approximately $292,000 related to the fair value adjustment of derivatives.

Table of Contents

2) For the year ended December 31, 2005:

a) our cost of sales increased approximately $253,000 from the year ended December 31, 2004 despite an increase in net sales year over year of only $14,500, due for the most part to an increase of approximately $231,000 in amortization expense related to software development costs resulting from the increased number of development projects completed and shipped in late 2004 and 2005 (including QuickVerse® 2005 in December 2004, Membership Plus® 2005 in February 2005, QuickVerse® Macintosh in June 2005, QuickVerse® 2006 in September 2005, and QuickVerse® 2006 Mobile in October 2005);

b) our bad debt expense (included in total operating expenses) increased approximately $114,000 from the year ended December 31, 2004 due primarily to our inability to collect on a balance due of $42,000 from a single liquidation customer. In addition, we wrote off approximately $58,000 related to uncollectible receivables arising out of a sales campaign that we initiated in 2005 which focused on offering new churches a beginning line of credit of approximately $500, and which has since been discontinued;

c) we incurred liquidated damage penalties of approximately $437,000 in connection with our continued failure to meet certain contractual registration obligations (which are included in other adjustments);

d) our legal expenses (included in general and administrative) increased approximately $117,000 from the year ended December 31, 2004 attributable in large part to ongoing matters associated with fulfillment of our contractual registration obligations and related restatements of certain of our historical financial statements; and

e) we recognized a loss of approximately $34,000 related to the fair value adjustment of derivatives.

Offsetting to some degree the negative results of operations detailed above were two positive developments during the year ended December 31, 2005. First, non-cash expenses related to equity-based compensation for services decreased by approximately $179,000 for the year ended December 31, 2005 as a result of our not having issued any. Second, interest expense for the year ended December 31, 2005 decreased, by approximately $42,000, from the year ended December 31, 2004, due to a reduction in trade payables coupled with an increase in timely payments.

Revenues

Revenues for Years Ended December 31	**2005**	**% to Sales**	2004	% to Sales	Change	%
Gross sales	**$ 6,309,017**	**100%**	$ 5,786,427	100%	$ 522,590	9%
Add rebate adjustment	**19,640**	**0%**	203,313	4%	(183,673)	0%
Less reserve for sales returns and allowances	**(991,315)**	**-16%**	(666,898)	-12%	(324,417)	49%
Net sales	**$ 5,337,342**	**84%**	$ 5,322,842	92%	$ 14,500	0%

Table of Contents

Gross revenues increased approximately $523,000 from approximately $5,786,000 for the year ended December 31, 2004 to approximately $6,309,000 for the year ended December 31, 2005. We believe that this increase was attributable primarily to the following product releases throughout the year:

First Quarter 2005

- an enhanced version of our top financial and data management product, Membership Plus®, including Membership Plus® Standard Edition (retail price: $149.95) and Membership Plus® Deluxe Edition (retail price of $349.95); and
- an enhanced version of QuickVerse® 2005 Essentials (retail price: $49.95) and QuickVerse® 2005 Platinum Edition (retail price: $799.95).

Second Quarter 2005

- our first product release on the Macintosh® Operating System platform, QuickVerse® Macintosh, including QuickVerse® Macintosh White Box edition, (retail price: $49.95) and QuickVerse® Macintosh Black Box edition (retail price: $99.95) and ;
- an enhanced version of Bible Illustrator® 3.0 titled Sermon Builder® 4.0 (retail price: $69.95), which marked the first update to this program in over six years.

Third Quarter 2005

- an upgrade to our flagship product, QuickVerse® (three months earlier within the calendar year than our 2004 upgrade release of this product, and the first QuickVerse® upgrade release in over five years that was shipped early enough to be in retail stores prior to the beginning of the holiday sales season), including QuickVerse® 2006 Starter Edition (retail price: $9.95), QuickVerse® 2006 Parable® Edition (retail price: $49.95), QuickVerse® 2006 Bible Suite (retail price: $29.95), QuickVerse® 2006 Essentials (retail price: $49.95), QuickVerse® 2006 Standard (retail price: $99.95), QuickVerse® 2006 Expanded (retail price: $199.95), QuickVerse® 2006 Deluxe (retail price: $299.95), and QuickVerse® 2006 Platinum (retail price: $799.95).

Fourth Quarter 2005

- an upgrade to our four editions of QuickVerse® 2006 Mobile, including Standard (retail price: $29.95), Deluxe (retail price: $39.95), Platinum Edition (retail price: $69.95), and Life Application Study Bible (retail price: $39.95).

During the year ended December 31, 2004, our product releases included Membership Plus® 8.0 (retail price: $199.95 to $299.95), QuickVerse® 2005 PDA (retail price: $14.95 to $39.95), and QuickVerse® 2005 (retail price: $99.95 to $299.95). Of note, and generally, the retail price points for the products released during the year ended December 31, 2004 were significantly less than those released during the year ended December 31, 2005. Furthermore, due to delays in programming, duplication, packaging and distribution, QuickVerse® 2005 began shipping in early-December 2004, several months after the holiday sales season had already begun. Due to these delays, we believe that we lost otherwise realizable sales revenues of approximately $500,000 for the year ended December 31, 2004.

During each of the years ended December 31, 2004 and 2005, our sales efforts were focused on directly targeting end-users through telemarketing and Internet sales, resulting in more consistent sales. While sales into the retail market (both CBA and secular) have continued to increase, they have not returned to our historically high levels. Upgrade sales, however are not increasing at a rapid rate due to the consistency in our development schedule and the annual releases of our flagship product, QuickVerse®. We anticipate that revenues will continue to increase through 2006 the following year as we continue to expand the content available for our QuickVerse® products, develop new products for multiple platforms, as well as offer our products at a range of price points intended to appeal to various market sub-segments.

Table of Contents

Sales returns and allowances increased approximately $324,000 from approximately $667,000 for the year ended December 31, 2004 to approximately $991,000 for the year ended December 31, 2005, and increased as a percentage of gross sales from approximately 12% for the year ended December 31, 2004 to approximately 16% for the year ended December 31, 2005. This increase is largely attributable to the following:

- price protections afforded to consumers and retailers who had purchased prior versions of Membership Plus® and QuickVerse® within one year or less of our release of upgraded versions of each of Membership Plus®, in February 2005, and QuickVerse®, in September 2005. Historically, our product upgrades have extended over two to three years and therefore, price protections were not issued;
- a single return from a liquidator of approximately $42,000 during the fourth quarter of the year ended December 31, 2005, which although we were not obligated to accept, we did accept based on a conclusion that it was in our best interest to do so;
- the unexpected loss of our primary developer for Membership Plus® in May 2005, together with certain unresolved maintenance issues at the time led to higher actual returns on the Membership Plus® 2005 product line; and
- increased price points associated with recently introduced products.

As a result of the overall increase in sales returns and allowances, we have increased our reserves from approximately $100,000 to approximately $125,000 to cover estimated retail channel inventory levels. Moreover, we expect to release enhanced versions of our biggest-selling products on an annual basis generally going forward, and anticipate sales returns and allowances as a percentage of gross revenues to decrease over time as a result of increased stability in the functionality of our products, decreasing reliance on retail sales and increasing reliance on direct sales, which have historically resulted in fewer returns, and improved planning in the timing of new product version releases.

For the year ended December 31, 2004, and due to a change in accounting estimate of approximately $142,000, we wrote down a reserve for rebates payable. Due to overstatements of approximately $20,000 and $61,000, we additionally wrote down actual rebates payable, both of which are included as an adjustment to revenue (in accordance with EITF Issue No. 01-09) for the years ended December 31, 2005 and 2004, respectively.

Cost of Sales

Cost of Sales For Years Ended December 31	**2005**	**% to Sales**	2004	% to Sales	Change	%
Direct costs	**$ 601,156**	**13%**	$ 579,946	15%	$ 21,210	4%
Less reserve for sales returns and allowances	**(148,245)**	**-3%**	(99,255)	-3%	(48,990)	49%
Amortization of software development costs	**806,531**	**17%**	575,480	15%	231,051	40%
Royalties	**471,651**	**10%**	417,604	11%	54,047	13%
Freight-out	**171,904**	**4%**	172,634	4%	(730)	0%
Fulfillment	**70,947**	**1%**	74,889	2%	(3,942)	-5%
Cost of sales	**$ 1,973,944**	**42%**	$ 1,721,298	44%	$ 252,646	15%

Cost of sales consists primarily of royalties paid 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 approximately $198,000 from approximately

$1,304,000 for the year ended December 31, 2004 to approximately $1,502,000 for the year ended December 31, 2005 and decreased slightly as a percentage of gross revenues approximately 1% for the year ended December 31, 2005. The overall increase resulted directly from amortization of software development costs. The amortization recognized during the year ended December 31, 2005 resulted from several new software releases in 2005 including Membership Plus®2005, QuickVerse® Macintosh, Sermon Builder® 4.0, QuickVerse® 2006 and QuickVerse® 2006 Mobile. The shorter timeframes between our product upgrades during the year of 2005 as compared to 2004, especially QuickVerse® 2005 and QuickVerse® 2006, also led to the increased amount of amortization recognized. During the year ended December 31, 2004 we continued to amortize the costs associated with QuickVerse® 8.0 along with Membership Plus® 8.0, the updated release of QuickVerse® PDA 2005 and the release of QuickVerse® 2005.

Table of Contents

The slight decrease in the percentage of cost of sales reflects the continual software development cycle of enhancing our two major product lines within a one year timeframe or less and the increased amortization of those software development costs. The direct costs and manufacturing overhead percentage are expected to continue at the 2005 levels as working capital remains more consistent and as more development projects are implemented in a shortened timeframe. Fulfillment costs from a third-party warehouse and included in the manufacturing overhead costs noted above decreased approximately $4,000 from approximately $75,000 for the year ended December 31, 2004 to approximately $71,000 for the year ended December 31, 2005 as a direct result of having moved our retail fulfillment operations to a new outside entity in late October 2004. Furthermore, our fulfillment center continues to improve its efficiency which has led to a decrease in fulfillment, as well as freight, costs. The write down of a distinct category of obsolete inventory of approximately $32,000 is included in the direct costs and manufacturing overhead for the year ended December 31, 2004.

Royalties paid to third party providers of intellectual property increased approximately $54,000 from approximately $418,000 for the year ended December 31, 2004 to approximately $472,000 for the year ended December 31, 2005 and decreased approximately 1% as a percentage of gross revenues for the year ended December 31, 2005. The overall increase in royalties paid for the year ended December 31, 2005 reflects the following:

- the release of the QuickVerse® 2005 editions in early December 2004;
- the release of three additional QuickVerse® 2005 editions , QuickVerse® Essentials, QuickVerse® Platinum, and QuickVerse® Macintosh;
- the release of Sermon Builder® 4.0 in June 2005, which was an update to Bible Illustrator® 3.0, and the first update to Bible Illustrator® 3.0 in over six years (including not only technological updates but content additions);
- the release of the QuickVerse® 2006 editions in September of 2005, which was three months earlier in the calendar year than was the case in 2004, and which allowed us to capitalize much more upon the holiday selling season; and
- the release of the QuickVerse® 2006 Mobile editions in October of 2005.

During the year ended December 31, 2004, we renegotiated several royalty contracts which resulted, in some cases, in a higher royalty rate but more content. The royalty rate as a percentage of gross sales is expected to increase in the future as sales to new users are expected to increase, more development projects are implemented for new and/or enhanced products, and as we continue to expand the content available for our QuickVerse® line of products.

The slight decrease in cost of sales as a percentage of gross sales reflects the fact that our sales results continue to be largely influenced by our reliance on direct marketing initiatives aimed at our consumers rather than retail distribution initiatives, and that upgrade sales are only subject to royalties on their content additions.

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 deemed to constitute development, and, accordingly, the costs of the revision and upgrade are capitalized. Capitalized costs are amortized on a product-by-product basis using the greater of (i) straight-line amortization over the estimated life of the product or (ii) 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.

Table of Contents

Our software development costs for the years ended December 31, 2004 and 2005 are summarized in the table below. These costs, consisting primarily of direct and indirect labor and related overhead charges, and capitalized during the years ended December 31, 2004 and 2005, were approximately $692,000 and approximately $812,000, respectively. Accumulated amortization of these development costs, which were included in cost of sales, totaled approximately $575,000 and approximately $807,000 for the years ended December 31, 2004 and 2005, respectively. The increase in both the capitalization and amortization is a direct result of the increase in the number of development projects.

Software Development Costs For Years Ended December 31	**2005**	2004
Beginning balance	**$ 701,289**	$ 584,706
Capitalized	**812,309**	692,063
Amortized (cost of sales)	**806,531**	575,480
Ending balance	**$ 707,067**	$ 701,289
Research and development expense (General and administrative)	**$ 216,397**	$ 64,653

Sales, General and Administrative

Sales, General and Administrative Costs for Years Ended December 31	**2005**	**% to Sales**	2004	% to Sales	Change	%
Selected expenses:						
Commissions	**$ 695,914**	**15%**	$ 814,623	21%	$ (118,709)	-15%
Advertising and direct marketing	**577,317**	**12%**	466,138	12%	111,179	24%
Total sales and marketing	**$ 1,273,231**	**27%**	$ 1,280,761	33%	$ (7,530)	-1%
Research and development	**$ 216,397**	**5%**	$ 64,653	2%	$ 151,744	235%
Personnel costs	**1,237,706**	**26%**	1,310,506	34%	(72,800)	-6%
Legal	**187,499**	**4%**	71,003	2%	116,496	164%
Accounting	**27,735**	**1%**	10,709	0%	17,026	159%
Rent	**82,172**	**2%**	75,555	2%	6,617	9%
Telecommunications	**53,092**	**1%**	149,443	4%	(96,351)	-64%
Corporate services	**73,972**	**2%**	87,223	2%	(13,251)	-15%
Administration	**18,762**	**0%**	118,474	3%	(99,712)	-84%
Other general and administrative costs	**535,332**	**11%**	422,272	11%	113,060	27%
Total general and administrative	**$ 2,432,667**	**51%**	$ 2,309,838	59%	$ 122,829	5%

Table of Contents

With gross revenues increasing approximately $523,000 from 2004 to 2005, total sales, general and administrative costs also increased approximately $115,000 from approximately $3,591,000 for the year ended December 31, 2004 to approximately $3,706,000 for the year ended December 31, 2005. Of the total sales, general and administrative costs, sales and marketing expenses decreased approximately $8,000 from approximately $1,281,000 for the year ended December 31, 2004 to approximately $1,273,000 for the year ended December 31, 2005. Included in sales expenses, third-party telemarketing commissions decreased approximately $119,000 from approximately $815,000 for the year ended December 31, 2004 to approximately $696,000 for the year ended December 31, 2005, and decreased as a percentage of gross revenues from approximately 21% to approximately 15% for the year ended December 31, 2004 and 2005, respectively. This decrease is attributed to the use of our own in-house direct telemarketing sales team which was developed specifically to reduce our reliance on third-party telemarketing services. Advertising and direct marketing costs increased approximately $111,000 from approximately $466,000 for the year ended December 31, 2004 to approximately $577,000 for the year ended December 31, 2005 and remained consistent as a percentage of gross revenues at approximately 12% over both years. The net increase in advertising and direct marketing costs year over year is the combined result of our continuing efforts to enhance our product visibility online, to increase and focus more on our direct marketing efforts, and our having increased the scope and frequency of our print advertising campaigns in order to maximize sales associated with the new product enhancements of Membership Plus® 2005, the three new QuickVerse® editions (QuickVerse® Platinum, Macintosh and Essentials), the updated Sermon Builder® 4.0, QuickVerse® 2006, and QuickVerse® 2006 Mobile during the year ended December 31, 2005.

Research and development costs include 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). Software development costs related to third-party developers and direct labor expensed as research and development (see table above) amounted to approximately $65,000 for the year ended December 31, 2004 compared to approximately $216,000 incurred for the year ended December 31, 2005. The increase in 2005 reflects more research and development costs associated with maintenance issues on titles following release as well as experimentation and development in connection with new system platforms for future products. Research and development expenses are expected to increase in future periods as we add new products and product versions, and as we continue to expand the array of platforms upon which are products are made available.

Total personnel costs decreased approximately $73,000, from approximately $1,310,000 for the year ended December 31, 2004, to approximately $1,238,000 for the year ended December 31, 2005 despite the fact that direct salaries and wages increased approximately $80,000, from approximately $1,523,000 to approximately $1,603,000, over the same period. The increase in direct salaries and wages was a direct result of expanding our sales and marketing team, including the addition of our own telemarketing sales team, and expanding our product development staff. As a percentage of gross revenues, direct salaries and wages decreased approximately 1% from approximately 26% for the year ended December 31, 2004 to approximately 25% for the year ended December 31, 2005. The direct salaries and wages include approximately $67,000 and $-0- in expense for upper management year-end bonus accrual for the years ended December 31, 2004 and 2005, respectively. Furthermore, we recognized approximately $14,000 of expense in connection with the issuance to various employees of 635,000 restricted common shares during the year ended December 31, 2004. As a result of having restructured our health benefits plans in October 2004, our employment-related health care costs decreased approximately $15,000 from approximately $155,000 for the year ended December 31, 2004 to approximately $140,000 for the year ended December 31, 2005. The capitalization of direct and indirect labor and related overhead charges as software development costs (see “Cost of Sales” above) increased by approximately $16,000 from approximately $379,000 for the year ended December 31, 2004 to approximately $395,000 for the year ended December 31, 2005. This increase is due to the addition of development staff and an increase in new development projects. It is anticipated that personnel costs will continue to increase in future periods as operating capital is available and deployed to further fund staffing requirements of our product development and direct sales teams.

Direct legal costs increased approximately $117,000 for the year ended December 31, 2005 as a result of ongoing registration initiatives with the SEC, increased current reporting requirements on Form 8-K, increased compliance initiatives associated with the Sarbanes-Oxley Act of 2002, and preparation for our first annual meeting of shareholders in over six years. This year over year change was also due in part to the fact that approximately $44,000 of legal costs for the year ended December 31, 2004 were related to the stock offering costs incurred in July 2004, the related preparation of a 14C information statement related to an increase in our authorized capital stock, and the preparation and filing of a related registration statement, all of which was recorded as a reduction to additional paid-in capital. It is anticipated that legal costs will continue at increased levels as we continue to meet our ongoing SEC reporting and corporate governance obligations, possibly raise additional capital, and pursue our business plan for growth by potentially acquiring other companies or product lines.

Table of Contents

Accounting and audit related expenses increased approximately $17,000 for the year ended December 31, 2005 as a result of continuing delays in the effectiveness of a registration statement, due principally to efforts made necessary by our determination to restate certain of our historical financial information. It is anticipated that accounting costs will continue to increase in the future, and that such increases may be substantial. Our expectation in this regard derives from the fact that we have recently engaged a new principal accounting firm for our year end 2005 audit, and we expect that our fees payable to such firm, which we expect to utilize on an ongoing basis, will generally be higher than those payable to our former auditors.

Rent costs increased approximately $7,000 for the year ended December 31, 2005 as a result of provisions in our leases calling for periodic percentage increases.

Telecommunications costs decreased approximately $96,000 for the year ended December 31, 2005 resulting from switching our local and long-distance carriers. Our increased call volume enabled us to change our service to dedicated T-1 lines which in turn reduced the long-distance charges. We also invested in internet protocol phones for our remote locations which reduced the overall local and long distance charges in our Illinois and Iowa locations. The increased call volume in the technical support and customer service departments resulted from the multiple product releases in 2005 including Membership Plus®2005, QuickVerse® Macintosh, Sermon Builder® 4.0, QuickVerse® 2006 and QuickVerse® 2006 Mobile.

Corporate service fees decreased approximately $13,000 for the year ended December 31, 2005 resulting from the expiration of an independent consulting agreement and the resultant ability on our part to cease carrying the associated expense for a 2004 issuance to such consultant of a warrant to purchase 600,000 shares of common stock which had been allocated over the term of the agreement.

Administration expenses decreased approximately $100,000 for the year ended December 31, 2005 due to our not having incurred interest and penalty fees on back payroll taxes as we had during the year ended December 31, 2004.

Finally, bad debt expense increased approximately $114,000 for the year ended December 31, 2005 due primarily to our inability to collect on a balance due of $42,000 from a single liquidation customer. In addition, we wrote off approximately $58,000 related to uncollectible receivables arising out of a sales campaign that we initiated in 2005 which focused on offering new churches a beginning line of credit of approximately $500, and which has since been discontinued.

Other Income and Adjustments

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 in connection with our prior sales of product. 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)

Table of Contents

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)

During the year ended December 31, 2004, we additionally 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.

On July 19, 2004, we completed an equity financing in the amount of $1,750,000 through a private placement with Barron Partners, LP in which Barron Partners purchased 21,875,000 restricted shares of common stock and received two warrants to purchase up to an additional 21,875,000 shares of common stock. As part of the financing transaction, we also entered into a certain Registration Rights Agreement with Barron Partners pursuant to which we became committed to registering all of the shares issued as part of such transaction, including those issuable under the warrants. Upon receipt of the requisite stockholder approval to increase the number of authorized common shares so as to allow us to deliver the warrants, effectively obtained and effectuated as of November 10, 2004, we had 30 days within which to file a registration statement on Form SB-2 covering the shares issued to Barron Partners, as well as the shares underlying the warrants issued to Barron Partners. Accordingly, this registration statement was filed on November 22, 2004. In accordance with the terms of the Registration Rights Agreement, as amended, we had another 150 days, until April 22, 2005, to cause this registration statement to be declared effective by the SEC, with any delays in meeting this obligation resulting in our being liable to Barron Partners in an amount equal to $630,000 per year, pro-rated for the duration of any such delay, which amounts to $1,726 per day. As of December 31, 2005, we had accrued a total of approximately $437,000 (253 days at $1,726 per day) in penalties under the terms of the Registration Rights Agreement, inclusive of an adjustment made pursuant to an agreement reached with Barron Partners in April 2005, wherein, in relation to the associated accruing penalties, we agreed to pay Barron Partners an amount in cash equal to $100,000 to toll the accrual of further penalties until June 21, 2005. Although this amount has been paid in full, in two equal installments of $50,000 on each of April 22, 2005 and July 8, 2005, penalties in the amount of $1,726 per day continued to accrue from June 21, 2005 until this registration statement was declared effective by the SEC on February 1, 2006. We had experienced continued delays in effectiveness of this registration statement due principally to ongoing efforts made necessary by our determination to restate certain of our historical financial information. The amount paid by us to date ($260,000 as of March 30, 2007) to satisfy this obligation has had a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations, including a corresponding reduction in our net income and the net loss for the year ended December 31, 2005.

Derivatives

In November 2004, we issued two warrants to purchase an aggregate of 21,875,000 shares of our common stock in connection with a certain Stock Purchase Agreement completed with Barron Partners, LP on July 19, 2004. The first warrant entitles the holder to purchase up to 10,937,500 shares of our 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 our common stock at a price of $0.60 per share. Each warrant is subject to standard adjustment provisions and each provides for settlement in registered shares of our common stock and may, at the option of the holder, be settled in a cashless, net-share settlement. These warrants have been accounted for as a liability according to the guidance of EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. In accordance with the accounting mandate, the derivative liability associated with these warrants has been and shall continue to be, until each is either fully exercised or expires, adjusted to fair value at each balance sheet date and is accordingly reassessed at each such time to determine whether the warrants should be classified (or reclassified, as appropriate) as a liability or as equity. The fair value of each warrant was initially assessed at $2,187,500 ($4,375,000 total) using the Black-Scholes valuation method. At December 31, 2004 and 2005, the fair value of the derivative liability was approximately $1,969,000 and $2,062,000, respectively, and a fair value adjustment of approximately $292,000 and $34,000, respectively, has been included in other expenses for the years then ended.

Table of Contents

Amortization

Amortization expense increased approximately $12,000 for the year ended December 31, 2005. The software license acquired from TLC in July of 1999 is amortized over a 10 year useful life. Amortization expense for 2005 reflects the continual amortization of the software license as well as the amortization of our new Website, www.quickverse.com, which we launched 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, 2005, management adjusted the amount of valuation allowance based on the assessment that we will produce sufficient income in the future to realize the economic benefit of 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 $8,462,000. The carryforwards are the result of income tax losses generated in 2000 ($2,338,000 expiring in 2020), 2001 ($5,168,000 expiring in 2021) and 2005 ($956,000 expiring in 2025). We will need to achieve a minimum annual taxable income, before deduction of operating loss carryforwards, of approximately $527,000 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.

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

Our primary needs for liquidity and capital resources are the funding of our continued operations, which includes the ongoing internal development of new products and expansion and upgrade of existing products. We believe our future cash provided by operations will be sufficient to fund our continued operations. However, our pursuit of future strategic product line and/or corporate acquisitions and licensing will require funding from outside sources. Funding from outside sources may include but are not limited to the exercise of outstanding warrants and pursuit of other financing options such as commercial loans, common stock and/or preferred stock issuances and convertible notes. At this time, we have no legally committed funds for future capital expenditures including software development.

Working Capital at December 31	**2005**	2004	Change	%
Current assets	**$ 867,750**	$ 1,551,447	$ (683,697)	-44%
Current liabilities	**$ 3,893,447**	$ 3,351,893	$ 541,554	16%
Retained deficit	**$ (7,752,097)**	$ (6,170,831)	$ (1,581,266)	26%

Table of Contents

As of December 31, 2005, we had $867,750 in current assets, $3,893,447 in current liabilities and a retained deficit of $7,752,097. We had a loss before income taxes of $1,530,557 and a net loss after income taxes of $1,581,266 for the year ended December 31, 2005. Non-recurring expenses for 2005 included registration rights penalties totaling approximately $437,000and a related loss of approximately $34,000 from the fair value adjustment of derivatives. See "Results Of Operations" above. By contrast, as of December 31, 2004 we had $1,551,447 in current assets, $3,351,893 in current liabilities and a retained deficit of $6,170,831. 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 connection with a settlement agreement. Other income for 2004 included approximately $1,000,000 from extinguishment of debt, and other expenses for 2004 included a loss of approximately $292,000 from the fair value adjustment of derivatives.

Cash Flows for Years Ended December 31	**2005**	2004	Change
Cash flows provided (used) by operating activities	**$ 612,345**	$ (643,668)	$ 1,256,013
Cash flows (used) by investing activities	**$ (801,422)**	$ (746,932)	$ (54,490)
Cash flows provided (used) by financing activities	**$ (32,722)**	$ 1,690,291	$ (1,723,013)

Net cash used by operating activities was approximately $644,000 for the year ended December 31, 2004, while net cash provided by operating activities was approximately $612,000 for the year ended December 31, 2005. The increase was primarily due to an increase in the amounts received from customers resulting from increased sales coupled with a decrease in the amount paid out to suppliers and employees.

Net cash used in investing activities was approximately $747,000 for the year ended December 31, 2004 and approximately $801,000 for the year ended December 31, 2005. The increase was mainly the result of our having capitalized costs associated with software development. Further, during the year ended December 31, 2005, the restriction on the cash held in reserve by our merchant banker was lifted, thereby freeing up additional cash not previously accessible by us.

Net cash provided by financing activities was approximately $1,690,000 for the year ended December 31, 2004, while net cash used by financing activities was approximately $33,000 for the year ended December 31, 2005. The 2004 result reflects final settlement on our accounts receivable line of credit, payment made on long-term note payables, stock offering costs associated with the Barron Partners, LP equity financing, and the proceeds received from convertible debentures and the issuance of stock to Barron Partners. The 2005 result reflects payments made on long-term note payables.

As part of the July 19, 2004 financing transaction with Barron Partners, LP, we entered into a certain Registration Rights Agreement pursuant to which we became committed to registering all of the shares issued as part of such transaction, including those issuable under each of two warrants. On November 22, 2004 we filed a registration statement on Form SB-2 covering the shares issued to Barron Partners, as well as the shares underlying the warrants issued to Barron Partners. In accordance with the terms of the Registration Rights Agreement, as amended, we had another 150 days, until April 22, 2005, to cause such registration statement to be declared effective by the SEC, with any delays in meeting this obligation resulting in our being liable to Barron Partners in an amount equal to $630,000 per year, pro-rated for the duration of any such delay, which amounts to $1,726 per day. As of December 31, 2005, we had accrued a total of approximately $437,000 (253 days at $1,726 per day) in penalties under the terms of the Registration Agreement, inclusive of an adjustment made pursuant to a tentative verbal agreement reached with Barron Partners in April 2005, wherein, in relation to the associated accruing penalties, we agreed to pay Barron

Partners an amount in cash equal to $100,000 to toll the accrual of further penalties until June 21, 2005. Although this amount has been paid in full, in two equal installments of $50,000 on each of April 22, 2005 and July 8, 2005, penalties in the amount of $1,726 per day continued to accrue from June 21, 2005 until the registration statement was declared effective on February 1, 2006 by the SEC. We had experienced continued delays in effectiveness of the registration statement due principally to ongoing efforts made necessary by our determination to restate certain of our historical financial information. The amount paid by us to date ($150,000 as of March 31, 2006) to satisfy this obligation, and the continued delays in our ability to cause the registration statement to be declared effective coupled with additional amounts which we are required to pay, has had a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations, including a corresponding reduction in our net income and the net loss for the year.

Table of Contents

Contractual Liabilities

We lease office space/warehouse facilities in Omaha, Nebraska under an operating lease with a third-party with terms extending through 2007. We are responsible for all taxes, insurance and utility expenses associated with this lease. There is no lease renewal option contained in the lease.

We lease office space in Naperville, Illinois under an operating lease with a third-party with terms extending through March 2007. We are responsible for all insurance expenses associated with this lease.

At December 31, 2005, the future minimum rental payments required under these leases are as follows:

2006	$ 81,331
2007	31,248
Total future minimum rental payments	$ 112,579

We lease telephone equipment under a capital lease expiring in November 2009. The asset and liability under the capital lease are recorded at the present value of the minimum lease payments. The asset is depreciated over a 5 year life. Minimum future lease payments under capital leases as of December 31, 2005 for each of the next five years and in the aggregate are:

2006	$ 13,726
2007	13,726
2008	13,726
2009	12,582
2010	---
Total minimum lease payments	53,760
Less: Amount representing interest	10,788
Total obligations under capital lease	42,972
Less: Current installments of obligations under capital lease	9,185
Long-term obligation under capital lease	$ 33,787

The Potential Impact of Known Facts, Commitments, Events and Uncertainties on Future Operating Results or Future Liquidity Requirements

New Accounting Pronouncements

In the past, we have applied Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations in accounting as allowed by SFAS No 123, *Accounting for Stock Based Compensation*, for various forms of share-based awards including incentive and nonqualified stock options and stock appreciation rights attached to stock options; and therefore, no compensation cost had been recognized. However, in December 2004, the FASB issued SFAS No 123 (R), *Share-Based Payment*, which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123 (R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the fair value on the grant date of the equity or liability instruments issued. Compensation cost will be recognized over the period that the service is provided for that award. This new standard will be effective for us the first quarter of fiscal 2006. We did not grant any form of share-based awards during the year ended December 31, 2005.

-39-

Table of Contents

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 for reserve of 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 continuously review the outstanding accounts receivable, 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.

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.

Table of Contents

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 FASB's 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,
- 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.

Table of Contents

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.

Derivatives

We account for warrants issued with shares of common stock in a private placement according to EITF Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. In accordance with accounting mandate, the derivative liability associated with the warrants has been and shall continue to be adjusted to fair value (calculated using the Black Scholes method) at each balance sheet date and is accordingly reassessed at each such time to determine whether the warrants should be classified (or reclassified, as appropriate) as a liability or as equity. The corresponding fair value adjustment is included in the consolidated statements of operations as other expenses as the value of the warrants increases from an increase in our stock price at the balance sheet date and as other income as the value of the warrants decreases from a decrease in our stock price.

Income Taxes

We utilize SFAS No. 109*, Accounting for Income Taxes*, which 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.

BUSINESS

OVERVIEW

We develop, publish, market, distribute and directly sell off-the-shelf consumer and organizational software products for PC, Macintosh® 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.

Table of Contents

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.

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 as well as to continue our double-digit sales growth across all distribution channels and our double-digit market share growth in all of our current product categories. We plan for the continued broadening of our product lines through marketing and sales initiatives, 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.

Table of Contents

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 other strategic growth opportunities, including, but not limited to, the acquisition of new product lines, content licensing, proprietary technology licensing or acquisitions, asset acquisitions, or acquisitions of other operating businesses, provided, however, that any such opportunities fit our corporate growth strategy and provide immediate or near term added value and provide a measurable increase in our existing customer base or a new, related customer base to which we can cross-market our products and produce greater revenues and/or earnings. 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.

There are significant risks and complexities associated with any such growth opportunities and/or acquisitions including but not limited to due diligence investigation, comparative investigation, comparative analysis, financing, operational transitions, and growth control or abatement. 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. In connection with our pursuit of such opportunities, we are also likely to incur significant transition and integration costs, ongoing operations costs, legal and accounting costs, 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.

Table of Contents

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 manufacturing time and gross margin percentages for each of our products can vary significantly from platform to platform. For each of our products we establish and periodically review an individual product development timeline and expenditure budget, taking into consideration, among others, the following business factors:

- prior year or season selling rates for existing and competitive products;
- known or estimated growth rates for existing and competitive products;
- new market opportunities for products, product categories, or product platforms;
- competitive products and known competitive strategies;
- general consumer market and consumer economic sentiments including past, present, and projected future conditions and/or events;
- technological changes, improvements, new platforms, and platform market share shifts;
- general distribution channels and customer feedback;
- current and perceived corporate cash flow;
- availability and limitations related to knowledgeable/expert talent and workforce; and
- known or projected risks associate with each of these factors.

Our total product development costs incurred during the years ended December 31, 2004 and 2005 were approximately $757,000 and approximately $1,029,000, respectively, of which capitalized costs accounted for approximately $692,000 and approximately $812,000, respectively and expensed costs accounted for $65,000 and approximately $217,000, respectively.

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 year ended December 31, 2005 we released a total of seventeen titles and title versions for PC, Macintosh® and PDA platforms. Through the year ended 2006, we released a total of approximately eleven titles and title version for PC, Macintosh® and PDA platforms.

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.

Table of Contents

Bible Study

For the fiscal year ended December 31, 2005, approximately 66% of our revenues were derived from sales of our flagship QuickVerse®, an industry-leading Bible-study software now in its 18th year and 11th version, which is available in an array of content package variations ranging in retail price from $9.95 to $799.95. Originally introduced into the market in 1989, QuickVerse® has sold over a 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 enable users to search by word, phrase or verse across multiple books offering search options that locate all forms of a given search word without the need for embedded symbols. For example, a search for the word "rise", will yield the words "arise", "risen", "rising", and "rise". QuickVerse® 2007, our latest version, is currently available in six CD-Rom editions for PC. 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 for PC includes:

QuickVerse® Bible Suite (which contains 8 Bibles and 40 reference titles, retail price: $39.95);
QuickVerse® Essentials Edition (which includes 10 Bibles and 44 reference titles, retail price: $59.95);
QuickVerse® Standard Edition (which includes 15 Bibles and 63 reference titles, retail price: $129.95);
QuickVerse® Expanded Edition (which includes 17 Bibles and 100 reference titles, retail price: $249.95);
QuickVerse® Deluxe Edition (which includes 23 Bibles and 154 reference titles, retail price: $349.95); and
QuickVerse® Platinum Edition (which includes 25 Bibles and 272 reference titles, retail price: $799.95).

Furthermore, for QuickVerse® 2007 we introduced the QuickVerse® 2007 Upgrade Download (retail price: $29.95), which is an update to the QuickVerse® engine for those with prior QuickVerse® versions (QuickVerse 8.0 Essentials or above). Each QuickVerse® purchase includes access to additional books and content, which can be unlocked or downloaded and made accessible for an additional fee.

QuickVerse® Mobile, an industry-leading Mobile Bible-study software, is compatible on both Pocket PC® and Palm® OS operating systems, and is currently in its 4th year and 4th version. This program provides the same simplified access and many of the personal Bible study features found in the desktop QuickVerse® versions. QuickVerse® Mobile 2007 is currently available in three editions as a download and in CD-Rom. Each edition of QuickVerse® Mobile 2007 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® Mobile 2007 family of products includes:

Standard Edition (which includes 3 Bibles and 6 reference titles, retail price: $29.95);
Deluxe Edition (which includes 6 Bibles and 9 reference titles, retail price: $39.95); and
Platinum Edition (which includes 8 Bibles and 13 reference titles, retail price: $69.95).

Each edition contains 125 scripture reading plans and provides the user with the ability to create their own.

Table of Contents

During the fiscal year 2005, we introduced QuickVerse® Macintosh, which is compatible with Macintosh® OS X 10.3 or higher operating systems. This program is available in three editions and provides 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 includes:

QuickVerse® White Box Edition (which includes 9 Bibles and 40 reference titles, retail price: $59.95);
QuickVerse® Black Box Edition (which includes 12 Bibles and 56 reference titles, retail price: $129.95); and
QuickVerse® Gold Box Edition (which includes 19 Bibles and 143 reference titles, retail price: $349.95).

Each QuickVerse® Macintosh product 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 Vine's® Complete Collection, the Warren Wiersbe® Collection, the John MacArthur® Collection, the Life Application Bible Commentary® Collection, the Willmington Guide to the Bible® Collection, and the Fisherman Study Guide® Collection. Although our prices are subject to change from time to time, these titles currently range in retail price from $9.95 to $249.95 per unit.

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

For the fiscal year ended December 31, 2005, approximately 26% of our revenues were derived from sales of Membership Plus®, an industry-leading church management software now in its 11th version. Membership Plus® 2007 is available in each of a standard and a deluxe package at retail prices of $199.95 and $399.95 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 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 Christ, Promise Keepers®, and Josh McDowell Ministry.

Over 80,000 churches and faith-based organizations have purchased Membership Plus® since its introduction in 1990. Membership Plus® 2007, 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.

-47-

Table of Contents

Print & Graphic Products

We currently sell/distribute ClickArt Christian Publishing® Suite III (retail price: $39.95), 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 ClickArt Christian Graphics Deluxe® (retail price: $29.95), which contain faith-based and Christian graphical images that can be used in the production of other content related projects. We also distribute several titles produced and distributed by SummitSoft Corporation a publisher of productivity software for professional and home users, including Logo Design Studio (retail price: $29.95), Essential Office Font Pack (retail price: $19.99), 2500 True Type Fonts (retail price: $19.99) and the Wedding Planner (retail price: $39.95).

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, 2005, 2% 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 (retail price: $69.95), 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 (retail price: $29.95), 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.
- Today's Best Sermons® (retail price: $99.95), which is a three volume collection of the best sermons from the *Preaching Today* monthly audiotape series, which users can use to gain spiritual refreshment and strengthen their preaching.

Although our prices are subject to change from time to time, our pastoral products range in price from $29.95 to $99.95 per unit. In the aggregate, and for the fiscal year ended December 31, 2005, 3% 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® (retail price: $5.97), Noah and the Ark® (retail price: $5.97), Daniel in the Lion's Den® (retail price: $5.97), The Story of Creation® (retail price: $5.97), and American History Explorer® (retail price: $29.95). In addition, we also distribute the DVD video Junior's Giants® (retail price: $12.95) produced by Divine Comedy Productions.

Although our prices are subject to change from time to time, our children's products range in price from $5.97 to $33.97 per unit. In the aggregate, and for the fiscal year ended December 31, 2005, less than 1% of our revenues were derived from sales of these products.

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, Greek Tutor® and Hebrew Tutor® (retail price: $49.95 each), 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 $69.95 per unit. In the aggregate, and for the fiscal year ended December 31, 2005, 3% of our revenues were derived from sales of these products.

Table of Contents

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 SummitSoft, Divine Comedy Productions 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 $5.97 to $39.99 per unit. In the aggregate, and for the fiscal year ended December 31, 2005, less than 1% of our revenues were derived from sales of these products.

OUR MARKET

According to a Gallup poll released in January 2006, 50% of Americans identified themselves as Protestant, while 25% identified themselves as Catholic, and 13% identified themselves as “Other Christian.” Another poll indicates that 41% describe themselves as “born-again” or evangelical Christian. According to the Gallup survey, 59% of Americans say that religion is “very” important to them in their own lives, and another 25% say that religion is “fairly” important in their lives.

According to the most recent survey released in July 2003 by the Christian Bookseller’s Association, 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 2,300-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) 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.

SALES

Direct Marketing / Online Sales

Direct sales accounted for approximately 61% of our 2005 fiscal year revenue. Over the past three 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®. Furthermore, in October of 2005 we joined an affiliate network through www.shareasale.com and have gained approximately 100 affiliate merchants that market our products through their Websites. While we market our products through these other Internet Websites, search engines and affiliate merchants, excluding our own www.quickverse.com Internet Website, accounted for less than approximately 1% of our 2005 fiscal year revenue.

Table of Contents

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 39% of our 2005 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 Christian Bookseller's Association. 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™, CompUSA®, OfficeMax™ and Apple® Stores 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.

International Sales

International sales accounted for approximately 3% of our 2005 fiscal year revenue. We currently sell to distributors and retailers in Canada, New Zealand, Australia, Philippines, Faroe Island, Korea, Africa, 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.

Table of Contents

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.

SIGNIFICANT CUSTOMERS AND SUPPLIERS

During the fiscal years ended December 31, 2005 and 2004, 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 fiscal years ended December 31, 2005 and 2004, product and material purchases from IsoDisc accounted for 24% and 29%, respectively, Frogs Copy and Graphics accounted for 23% and 17%, respectively, Midlands Packaging Corporation accounted for 19% and 18%, respectively, S.P.A., Inc. accounted for 6% and 0%, respectively, and GP Direct, LLC accounted for 5% and 0%, 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:

Table of Contents

- 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, Christian Bookseller's Association, direct and online sales.

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

- 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'® reputation to be among the most well-respected in its category.

In relation to our QuickVerse® Mobile products, we currently compete with the following companies and products, among others:

Laridian - My Bible®
Thomas Nelson, Inc. - Nelson eBible® for PDA
Zondervan - NIV Bible Study Suite PDA®
WordSearch Bible Publishers - Life Application Bible Pocket Library®
Olive Tree Bible Publishers - Olive Tree Bible Software®

We believe that QuickVerse® Mobile is the market leader in CBA retail and a top performer in overall sales in the PDA Bible Software market. We believe QuickVerse® Mobile offers a high quality product along with a substantial amount of content at an affordable price.

Furthermore, we currently compete with the following companies and comparable products, among others, in relation to our QuickVerse® Macintosh products:

Zondervan - Zondervan Bible Study Suite® for Macintosh®
Oak Tree Software, Inc. - Accordance Bible Software®

QuickVerse® Macintosh was released in June 2005, and we believe that it is the market leader in CBA retail. QuickVerse® Macintosh was developed from the ground up to be a truly native OS-X application. As with the other QuickVerse® family of products, we believe QuickVerse® Macintosh tends to be the least expensive product in its category given its features and extensive collection of Bibles and Bible reference content.

Table of Contents

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

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

We believe that Membership Plus® is the market leader by a margin of over 100% in the church management software publishing category in terms of registered users. Membership Plus® 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 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.

Table of Contents

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 99% of our revenues in 2005, 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 prospectus 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.

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 the 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 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 our Form 10-KSB for the year ended December 31, 2005.

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 five subsequent versions, eight different editions and three new platforms of QuickVerse® , five 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.

Table of Contents

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.

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.

While approximately 82% of our copyrighted software programs are registered with the U.S. Copyright Office, approximately 18% remain unregistered, including all of the works included in the enhancements that we have made to titles from which we originally derived our rights under the 1999 license. In the U.S., works afforded the benefit of copyright protection can either be registered with the U.S. Copyright Office or remain unregistered, and although registration offers certain advantages to the holder in being able to assert its rights (including a rebuttable presumption of ownership and entitlement to statutory damages and attorneys fees), the fact remains that an original work in the U.S. becomes protected by the copyright laws from the moment it is “fixed in a tangible medium,” which, as it relates to software, has long been interpreted to mean when it is stored on a hard drive or removable disk.

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, editions and platforms 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.

Table of Contents

EMPLOYEES

As of March 30, 2007, we had twenty-three full-time employees. Of those twenty-three, four were part of the senior-level executive and financial management team, four were in the product development team, seven were on the sales team, and eight were in fulfillment, administration, and related support positions. For the fiscal year ended December 31, 2005, our annual payroll was approximately $1,603,000, equivalent to 25% 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 in operating the business. We are not subject to any collective bargaining agreements and believe that our relationships with our employees are good.

LEGAL PROCEEDINGS

As of the date of this prospectus, 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.

PROPERTIES

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 $8,309.14 and, as of March 30, 2007 there were approximately two 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 a three year lease agreement with Transwestern Commercial Services. Our monthly rent is $1,356.67 and there are twenty-four months remaining under the lease.

Two 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.

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, historically accounting for less than 30% of annual sales.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Our directors and executive officers and their ages as of March 30, 2007 were as follows:

Name	Age	Position
Steven Malone	40	Director, Chairman of the Board and

		President
John A. Kuehne, CA	49	Director
Kirk R. Rowland, CPA	47	Director and Chief Financial Officer
William Terrill	50	Chief Technology Officer
Brittian Edwards	44	Vice President, CBA Sales and Licensing

Table of Contents

Steven Malone - Chairman of the Board of Directors, President and Chief Executive Officer

Mr. Malone has served as our President and Chief Executive Officer since March 2001 and as a director and Chairman of the Board since February 2002. Between July 2000 and March 2001, Mr. Malone was Senior Vice President and between June 1999 and July 2000 he was a Vice President. Mr. Malone possesses over eighteen years of experience in the computer industry, with the last twelve focused on software sales. As a National Account Manager from 1992 to 1996 for Grolier Interactive, he was responsible for their largest retail and distribution accounts. As Director of Corporate Sales from 1996 to 1998 for Software Publishing Corporation, he was responsible for the on-going sales growth of premiere corporate products, such as the award winning Harvard Graphics, as well as the introduction of several new products to the corporate marketplace. As Director of Sales from 1998 to1999 for InfoUSA, he was responsible for sales and marketing of InfoUSA's products to retail, distribution, OEM and corporate accounts.

John A. Kuehne, CA - Director

Mr. Kuehne has served as one of our directors since December 2000. He is also currently a management consultant and the President of SmallCap Corporate Partners Inc., (www.smallcap.ca), a corporate finance and investor communications advisory firm for microcap public companies. He has held this position since August 2003. Prior to SmallCap, Mr. Kuehne served as a management consultant with Alliance Corporate Services Inc. from July 2000 through to June 2003. Mr. Kuehne worked in finance and accounting for Deloitte & Touche for eight years. He also has industry experience, including over seven years with Doman Industries Limited (1990 to 1999), a large private Canadian forest products company, where he eventually became Chief Financial Officer. As the CFO of Doman Industries, Mr. Kuehne gained practical experience in corporate finance and mergers and acquisitions, completing a $125 million senior note issue through Bear Stearns and the $140 million acquisition of Pacific Forest Products. Mr. Kuehne holds a Bachelor of Commerce degree from the University of Alberta (1984) and a Masters of Management from the J.L.Kellogg Graduate School of Management at Northwestern University (1990). From June 2000 to May 2004 he served as a director of Prospector Consolidated Resources Inc., a Canadian public company. From January 2003 to November 2004 he served as a director of Beau Pre Explorations Ltd., also a Canadian public company. Mr. Kuehne qualified as a Canadian Chartered Accountant in 1983 and as an American Certified Public Accountant in 1985.

Kirk R. Rowland, CPA - Chief Financial Officer

Mr. Rowland has served as our Chief Financial Officer and as one of our directors since April 2002. He served as our Vice President of Finance from March 2001 to April 2002, and as our Director of Finance from December 1999 through March 2001. Mr. Rowland has over seventeen years of experience in public accounting working in a multitude of industries, including insurance, manufacturing, and agriculture. Most recently, and from 1992 to 1999 he was a partner in Manning & Associates, P.C. a local Nebraska accounting firm. From 1984 to 1988, Mr. Rowland was a Senior Staff Accountant with KMG Main Hurdman (now KPMG), an international accounting firm, and from 1988 to 1992 he was an Audit Supervisor with Sommer, Magnuson, & Dawson, P.C.

William Terrill - Chief Technology Officer

Mr. Terrill rejoined us in July 2002 as our Chief Technology Officer after having been involved with us from July 1999 to July 2000. He has over 26 years of experience managing software divisions and technology efforts for us, The Learning Company, Mindscape, and The Software Toolworks. As Vice President of the Parsons Church Division for The Learning Company, from January 1999 to July 1999, Mr. Terrill managed a 30% annual revenue increase and shared responsibilities in the transaction that resulted in our acquiring that division. Mr. Terrill was the Senior Vice President Reference Products Division for Mindscape from 1989 to 1995 managing revenues exceeding $14 million. He has extensive experience managing international software development teams in China, Singapore, United

Kingdom, India, and Russia. Mr. Terrill has experience with joint ventures, spin-offs, mergers, IPOs, and corporate acquisitions. In addition, Mr. Terrill has lead software product marketing teams and content/media acquisition efforts for over ten years. As a consultant from 1996 to 1998, Mr. Terrill has extensive experience leading large-scale product development and information technology efforts for Navistar, Nalco Chemical, American Express, Motorola, and IBM Global Services. From July 2000 to July 2002, Mr. Terrill served as the IT Integration Program Manager for Blue Diamond Joint Venture between Ford Motor Company and International Truck and Engine Corporation.

Table of Contents

Brittian Edwards - Vice President of CBA Sales and Licensing

Mr. Edwards has served as our Vice President of CBA Sales and Licensing since July 2004. Mr. Edwards served as our Vice President of Sales from April 2002 to July 2004 and director of Christian Booksellers Association Sales from July 1999 to April 2002. Mr. Edwards has been in the Christian Booksellers Association marketplace for more than 18 years. He began his career in 1988 with LifeWay Christian Resources as LifeWay Christian Stores retail manager. He then worked successfully for Genesis Marketing Group from 1994 to 1995 as a Sales Manager for Texas, Oklahoma, Louisiana and New Mexico. From there he served as a Product Manager for the largest Christian distributor, Spring Arbor, which is now owned by Ingram Book Group. He left Spring Arbor as National Sales Manager in 1988 to become the National Sales Manager for Parsons Technology, then owned by Broderbund.

Board of Directors Committees

There are currently two standing committees comprised of members of our board of directors. These include our audit committee and our compensation committee.

Since December 2000, we have maintained an audit committee. We currently only have one member, John A. Kuehne, who is a “financial expert” (as defined in Regulation 228.401(e)(1)(i)(A) of Regulation S-B) serving on our audit committee. Mr. Kuehne qualifies as an “independent” director under Item 7(d)(3)(iv) of Schedule 14A of the Securities Exchange Act of 1934.

Since July 2003, we have maintained a compensation committee. We currently only have one member, John A. Kuehne, serving on our compensation committee.

On March 31, 2006, Dr. Henry M. Washington resigned as a member of our board of directors as a result of other professional obligations, leaving us with only one independent director and causing the entire board to temporarily function as the audit and compensation committee. As of the date of this filing, and despite our efforts to do so, we have not yet identified a suitable replacement.

Disclosure Policy Committee

Since September 2002, we have had a Disclosure Controls and Procedure Officer Committee (the “Disclosure Policy Committee”). The current members of the Disclosure Policy Committee include Steven Malone, John A. Kuehne, and Kirk R. Rowland. The Disclosure Policy Committee has implemented disclosure controls and procedures that meet the standards established by Rule 13a-15 of the Securities Exchange Act.

EXECUTIVE COMPENSATION

The following table sets forth the total compensation awarded to, earned or paid, for each of the last two fiscal years to our Chief Executive Officer and each of our executive officers earning a total compensation of $100,000 or more during any such fiscal year. Steven Malone has served as our President and Chief Executive Officer since March 2001. William Terrill has served as our Chief Technology Officer since July 2002. Kirk R. Rowland has served as our Chief Financial Officer and director since April 2002. No other individuals employed by us earned a total compensation in excess of $100,000 during the fiscal year ended December 31, 2006.

Table of Contents

Summary Compensation

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-equity Incentive Plan Compensation ($)	Non-qualified Deferred Compensation Earnings ($) (a)	All Other Compensation ($) (b)	Total ($)
Steven Malone,	2006	$ 150,000	$ 6,632	$ ---	$ ---	$ ---	$ 650	$ 5,041	$ 162,323
President and Chief Executive Officer	2005	$ 150,000	$ ---	$ ---	$ ---	$ ---	$ ---	$ 14,136	$ 164,136
William Terrill,	2006	$							