FINDEX COM INC
Form SB-2/A
December 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Amendment No. 5 to the

FORM SB-2/A
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	150,000(4)	$ 0.010(5)	$ 1,500	$ 0.19
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	47,491,666		$10,860,300	$1,376.00(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 $1,376.00 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 December 14, 2005

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.

47,491,666 SHARES OF COMMON STOCK

OFFERED BY SELLING STOCKHOLDERS

This prospectus relates to the resale of up to 47,491,666 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 $8,669,550. 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 December 13, 2005, the average of the bid and asked prices of our common stock was $0.085 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 4 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 December 14, 2005.

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.

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Unless otherwise specified, the information in this prospectus is set forth as of December 14, 2005, 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 5 through 14 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 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".

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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
- 1,275,000 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 23,150,000 additional shares of common stock issuable upon exercise of the warrants described above.
On December 14, 2005, there were 48,619,855 shares of our common stock outstanding. Upon the exercise of the warrants described above, the number of shares offered by this prospectus represents 66.2% of our total common stock outstanding on December 14, 2005.

Total common stock outstanding prior to this offering	48,619,855
Total common stock offered for resale to the public in this offering	47,491,666
Common stock outstanding after this Offering	71,769,855
Percentage of common stock outstanding following this offering that shares being offered for resale represent	66.2%

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 $8,669,550 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 December 13, 2005, the average of the bid and asked prices of our common stock was $0.085 per share.

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EXPLANATORY NOTES

On July 21, 2005, our management and board of directors, in consultation with Chisholm, Bierwolf & Nilson, P.C., our independent registered accounting firm, determined that we would revise our previously issued consolidated balance sheets, statements of operations, statements of stockholders' equity, and statements of cash flows for the fiscal years ended December 31, 1999, December 31, 2000, December 31, 2002, December 31, 2003 and December 31, 2004 and for each of the three month periods ended June 30, 2002, September 30, 2002, March 31, 2003, June 30, 2003, September 30, 2003, March 31, 2004, June 30, 2004, September 30, 2004, March 31, 2005,and June 30, 2005 to reflect certain issues identified during a regulatory review of our financial statements associated with this registration statement as originally filed with the SEC on November 22, 2004 on Form SB-2. Our management and our board of directors have concluded these restatements are necessary to reflect the following changes:

The following revisions affected the reported results of operations for the periods indicated:

§ During the year ended December 31, 1999, we erroneously recognized revenue of $559,201, cost of sales of $156,280 and an income tax expense of $168,000, associated with inventory retained by The Learning Company ("TLC") as part of a certain amended Asset Purchase Agreement dated June 30, 1999. Accordingly, we have restated our consolidated balance sheet as of December 31, 1999 and our consolidated statements of operations, consolidated statements of stockholders' equity, and consolidated statements of cash flows for the year then ended.

§ During the year ended December 31, 2004, we discovered that unpaid rebate claims from the year ended December 31, 2000, totaling $98,946, had been duplicated. Accordingly, we have restated the liability recorded for unpaid rebate claims for the fiscal year end December 31, 2000 as a decrease to rebates payable rather than as an adjustment to the beginning retained earnings of the period commencing January 1, 2003.

§ During the quarter ended June 30, 2002, we reached a tentative settlement agreement in an arbitration with TLC which forgave the final, unpaid installment due on a certain software license agreement entered into in 1999 and extended the license term from 10 years to 50 years. We originally recorded the final, unpaid installment of $1,051,785 as an offset against the recorded historical cost of the 1999 license and recalculated the amortization based on this reduced amount and the extension of the useful life to 50 years. Our management has concluded that too much time had elapsed between the date of the 1999 license and the date of the tentative settlement agreement for such an offset to be appropriate. Accordingly, we have restated our statement of operations for the year ended December 31, 2002 recognizing the extinguishment of the liability owed to TLC.

§ During the year ended December 31, 2003, we reached a final settlement agreement in a second dispute arising out of the 1999 license with Zondervan and TLC which extended the life of the 1999 license, and the trademarks included therein, indefinitely. Our management has since concluded a 10 year life is appropriate on the basis of our going concern opinions for the years ended December 31, 2002 and 2003. Accordingly, we have restored the estimated economic useful life to the original 10 years and have recalculated annual amortization accordingly for the years ended December 31, 2003 and 2004 and subsequent periods.

The following revisions resulted only in reclassifications or clarification and had no net effect on the reported results of operations:

§ During the year ended December 31, 2003, we decided to no longer provide support for and to destroy all remaining inventory of certain of our products. Accordingly, we revised our consolidated statement of operations for the year ended December 31, 2003 to reflect obsolete inventory of $60,792 in the "Cost of Sales" section.

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- § As part of the 2003 final settlement process with Zondervan and TLC, an internal audit (verified by an independent auditor provided by TLC) of the accrued royalties owed Zondervan revealed that accrued royalties had been overstated due to out 2001 bad debt recognition of TLC's trade accounts receivable balance. Accordingly, we revised our condensed consolidated statements of operations for the year ended December 31, 2003 to reflect the $583,628 adjustment as "Other income" in the "Other income (expense)" section.

- § During the year ended December 31, 2003, we reclassified loan proceeds, and the corresponding accrued interest payable, previously recorded as an unsecured note payable. Accordingly, we revised our condensed consolidated statements of operations for the year ended December 31, 2003 to reflect the $866,516 adjustment as "Other income" in the "Other income (expense)" section.

- § During the three months ended March 31, 2004, and as a direct result of the final settlement agreement with Zondervan and TLC, we wrote-off certain inventory containing Zondervan-owned content. Accordingly, we revised our condensed consolidated statement of operations for the year ended December 31, 2004 to reflect this $32,396 inventory adjustment in the "Cost of Sales" section.

- § During each of the above referenced reporting periods, we reclassified rebates from sales and marketing expenses to an adjustment to revenue.

- § During the three months ended September 30, 2004, we settled a dispute for early termination arising out of an agreement with Swartz Private Equity and originally recorded this transaction as a non-recurring item of $154,569 in our condensed consolidated statements of operations. Our revised condensed consolidated statement of operations for the year ended December 31, 2004 reflects this transaction as "Other expenses" in the "Other income (expense)" section.

- § During the three months ended September 30, 2004, we negotiated a settlement agreement for debt extinguishment with several of our creditors totaling $1,002,090 in the aggregate. Our revised condensed consolidated statement of operations for the year ended December 31, 2004 reflects this transaction in the "Other income" section.

On October 3, 2005, our management and board of directors, in consultation with Chisholm, Bierwolf & Nilson, P.C., our independent registered accounting firm, determined that we would revise our previously issued consolidated balance sheets, statements of operations, statements of stockholders' equity, and statements of cash flows for the fiscal years ended December 31, 2003 and December 31, 2004 and for each of the three month periods ended June 30, 2003, September 30, 2003, March 31, 2004, and June 30, 2004 to reflect a certain issue identified during a regulatory review of our financial statements associated with this registration statement as originally filed with the SEC on November 22, 2004 on Form SB-2. Our management and our board of directors have concluded this restatement is necessary to reflect the following change:

- § During the three months ended June 30, 2004, we originally recorded an adjustment to our rebates reserve in the amount of $266,301 and an adjustment to rebates payable in the amount of $12,599. Upon reassessment of the adequacy of our reserve at December 31, 2003, we have allocated $124,262 of the total adjustment to fiscal year 2003 and $142,039 to fiscal year 2004 with $66,575 allocated to the three months ended March 31, 2004 and $75,464 allocated to the three months ended June 30, 2004. Our revised condensed consolidated statement of operations for the years ended December 31, 2003 and 2004 reflect these adjustments as an adjustment to revenue.

On November 30, 2005, our management and board of directors, in consultation with Chisholm, Bierwolf & Nilson, P.C., our independent registered accounting firm, determined that we would revise our previously issued consolidated balance sheets, statements of operations, statements of stockholders' equity, and statements of cash flows for the fiscal year ended December 31, 2004 and for each of the three month periods ended September 30, 2004, March 31, 2005, June 30, 2005 and September 30, 2005 to reflect a certain issue identified during a regulatory review of our financial statements associated with this registration statement as originally filed with the SEC on November 22, 2004 on Form SB-2. Our management and our board of directors have concluded this restatement is necessary to reflect the following change:

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§ On July 19, 2004 we completed an equity financing in the amount of $1,750,000 through a private placement with Barron Partners, LP, a New York based institutional investor, pursuant to 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 erroneously treated the warrants issued to Barron Partners as equity. The correct presentation is as a liability adjusted for changes in fair value, at each balance sheet date, through the consolidated statements of operations, as provided by EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. Accordingly, we have reclassified the initial fair value of the warrants ($4,375,000 at July 19, 2004) as a current liability ($2,843,742 at September 30, 2005) and have included the net change in fair value through September 30, 2005 ($874,992) and 2004 ($1,385,422) in "Other Expenses" on our consolidated statements of operations.

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. We believe that the net proceeds received from our 2004 sales of common stock and warrants, and convertible promissory notes together with future cash flow from operations, and funds from external sources of credit-based debt financing, will be adequate to meet our anticipated liquidity requirements over the next twelve months and will provide additional capital for potential acquisitions. Given our initiative towards rapid revenue growth, there can be no assurance, however, that our operations and access to external sources of financing will continue to provide resources sufficient to satisfy our liabilities arising in the ordinary course of business. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources".

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

As of September 30, 2005, and as a result of historical losses in prior years, our accumulated deficit was $7,764,059. 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”.

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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 2004, approximately 91% of our total revenue was derived from two software titles; QuickVerse®, comprising 63% of total revenue, and Membership Plus®, comprising 28% of total revenue. We expect that a very limited number of popular 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 systems (such as PDA) has resulted in longer development cycles, higher development expenditures and the need to more carefully monitor and plan development processes associated with these products.

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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. While our most recent title version, QuickVerse® 2006, was introduced as planned in September 2005, it remains 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 or the expectations of public market analysts and investors, 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. The majority of sales for a new title or title version occur within the first thirty to one hundred and twenty days following release and net revenue associated with the initial introduction generally constitutes a high percentage of the total net revenue over the life of the title or title version. 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 in 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".

Errors or defects in our software products may cause a loss of market acceptance and result in fewer sales 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 after their 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.

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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 cash outlays for product development for the fiscal year ended December 31, 2004 were higher than the fiscal year ended December 31, 2003. Our product development cash outlays may 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 our existing key personnel or attract and retain additional key personnel. 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.

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”.

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

Approximately 97% of our revenues in 2004, including those generated from sales of QuickVerse® and Membership Plus®, by far our two largest selling software titles, 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 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. 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.

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, generating only about 29% 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.

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RISKS ASSOCIATED WITH AN INVESTMENT IN OUR COMMON STOCK

We have incurred a total of $407,336 (236 days at $1,726 per day) in registration rights penalties as of the date of this amendment.

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, and warrants to purchase another 21,875,000 shares of our common stock, to Barron Partners, LP, a New York based institutional investor. As part of the financing transaction, we also entered into a certain Registration Rights Agreement with Barron Partners, LP 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. Such 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 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 14, 2005 we have accrued $407,336 (236 days at $1,726 per day) in penalties under the Registration Rights 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 continue to accrue from June 21, 2005 until this registration statement is declared effective, at which time a negotiated reduction of such total amount is expected to be reached, the extent of which is as yet unknown, and terms of payment of which are expected to be agreed to which will allow us to reasonably meet our ongoing operating needs. We have experienced continued delays in the effectiveness of this registration statement due principally to ongoing efforts made necessary by our determination to restate certain of our historical financial information. Although there can be no assurance, management is hopeful that we will cause this registration statement to be declared effective in the near future. The amount paid by us to date to satisfy this obligation has, and any continued delays in our ability to cause this registration statement to be declared effective coupled with additional amounts which we are and may be required to pay, will 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.

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

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.

The fair value of each warrant was initially assessed at $2,187,500 ($4,375,000 total) using the Black-Scholes valuation method. In accordance with accounting mandate, the derivative liability associated with these warrants has been and shall continue until this registration statement is declared effective to be 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. At December 31, 2004, the fair value of the derivative liability was approximately $1,969,000, and a fair value adjustment of approximately $292,000 has been included in other expenses for the year then ended. The fair value of the derivative liability is directly related and will fluctuate in response to the share price of our common stock. 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”.

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Up to 47,491,666 shares of our common stock will become eligible for public sale as a result of this registration which is likely to depress our stock price.

When this registration statement is declared effective by the SEC, 24,341,666 shares of our common stock will be eligible for immediate resale on the public market and 23,150,000 shares of our common stock underlying warrants, upon their exercise, will be 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 66.2%. 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 will be freely transferable thereafter 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.

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.

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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".

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.

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The volatility of our common stock is illustrated by reference to the fact that, during fiscal year 2004, our trading price fluctuated from a low of $0.018 to a high of $0.40 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”.

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

Any shares owned by our officers or directors which are either registered in another registration statement or which otherwise may be sold in the future without registration under the Securities Act to the extent permitted by Rule 144 or other exemptions under the Securities Act, may be sold in the future by them. 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 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 or quotation system.

We are not currently subject to the listing requirements of any national securities exchange or quotation system. The listing standards of the national securities exchanges and automated quotation systems 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 three members, all of whom are independent. Similarly, the compensation and nominating committees of company boards of directors must also consist of independent directors. Currently, only two of our directors, who are the only members of our audit committee, meet the definition of an "independent" director as defined by the Sarbanes-Oxley Act of 2002 and as defined by listing standards. Further, two of our four directors are currently executive officers and thereby do not satisfy these independence standards. There is no guarantee that we will be able to appoint an additional director who will satisfy these independence requirements. If we are unable to appoint an additional independent director to our board, we will be precluded from listing any of our capital stock on a national securities exchange or quotation system.

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The even number of members on each of our board of directors, audit committee and compensation committee could result in a stalemate on important company matters.

The fact that we currently have four members on our board of directors, and two members on each of our board of directors' audit and compensation committees, could result in a tie vote on company matters, including those involving highly material corporate governance issues. Moreover, we do not currently have any duly adopted resolution procedures in place that would provide a means for resolving any stalemate that might occur in this regard. Although we are currently in the process of considering potential alternative procedures in order to be prepared for having to face such a potential situation, our current lack of any such procedure could result in our inability to be able to act under circumstances in which the failure to act or any delay in acting could have a material adverse effect on our business, our financial condition, including liquidity and profitability, and our results of operations.

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 warrants to the law firm of Membrado & Montell, LLP, and to Michael M. Membrado, our corporate counsel. 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.

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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 $8,599,550. Net proceeds are determined after deducting all of the expenses associated with this offering (estimated to be approximately $70,000). 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 $8,599,550 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	5,599,550
New Content License Acquisitions	500,000
Total Net Proceeds	$ 8,599,550

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2005, COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2004

This information should be read in conjunction with our consolidated financial statements for the period ended September 30, 2005 and the notes to those consolidated financial statements.

Management Overview

During the third quarter of 2005, we released an upgrade to our flagship product, QuickVerse®, which was three months earlier compared to our upgrade release of QuickVerse® in 2004. Furthermore, this is the first upgrade release of QuickVerse® in over five years that will be in the retail stores before the Holiday season begins. QuickVerse® 2006 is currently available in five editions, QuickVerse® 2006 Essentials, QuickVerse® 2006 Standard, QuickVerse® 2006 Expanded, QuickVerse® 2006 Deluxe and QuickVerse® 2006 Platinum. We believe that the unique features of the new QuickVerse® 2006 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. The QuickVerse® 2006 editions range in retail price from $49.95 to $799.95. In addition, during the second quarter of 2005 and for the first time in our operating history, we introduced QuickVerse® to the Macintosh® Operating System platform. QuickVerse® Macintosh is available in two new editions, QuickVerse® Macintosh Black which has a suggested retail price of $99.95 and QuickVerse® Macintosh White which has a suggested retail price of $49.95. We believe we are now the only publisher of Bible reference software for each of the Windows®, Macintosh®, PocketPC® and Palm® OS platforms. We also released an updated version of Bible Illustrator® 3.0 titled Sermon Builder® 4.0 during the second quarter of 2005. Sermon Builder® 4.0 was the first update to this particular program in over six years and has a suggested retail price of $69.95. Sermon Builder® 4.0 is ideal for pastors and teachers who want to create punctuated sermons, comprehensive lessons, and in-depth Bible studies. Furthermore, during the first quarter of 2005, and for the second consecutive year, we released an upgrade to our top-selling financial and data management software, Membership Plus®, and introduced two new QuickVerse® editions, QuickVerse® 2005 Essentials and QuickVerse® 2005 Platinum. As a result of these releases, our third quarter 2005 revenues were higher than those during the third quarter of 2004. Although there can be no assurance, we believe that we can sustain our revenue growth through the fourth quarter based upon our development schedule which includes an update to our QuickVerse® PDA software.

Results Of Operations for Quarters Ending September 30, 2005 and September 30, 2004

Statement of Operations for Nine Months Ended September 30	**2005**	2004	Change	%
Net revenues	**$ 3,978,019**	$ 3,664,060	$ 313,959	9%
Cost of sales	**$ 1,276,227**	$ 1,171,661	$ 104,566	9%
Gross profit	**$ 2,701,792**	$ 2,492,399	$ 209,393	8%
Total operating expenses	**$ (3,317,410)**	$ (2,876,077)	$ (441,333)	15%
Other income	**$ 75**	$ 1,010,288	$ (1,010,213)	-100%
Loss on valuation adjustment of derivatives	**$ (874,992)**	$ (1,385,422)	$ 510,430	-37%
Other expenses	**$ (289,876)**	$ (193,344)	$ (96,532)	50%
Loss before income taxes	**$ (1,780,411)**	$ (952,156)	$ (828,255)	87%
Provision for income taxes	**$ 187,182**	$ (92,417)	$ 279,599	-303%
Net loss	**$ (1,593,229)**	$ (1,044,573)	$ (548,656)	53%

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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, generating only about 29% of our annual sales.

For the nine months ended September 30, 2004, we wrote down the reserve for rebates payable from a change in accounting estimate of approximately $142,000 and wrote down actual rebates payable of approximately $61,000 due to an overstatement. Both of these write down items are recognized as an adjustment to revenue. We also wrote down a distinct category of obsolete inventory of approximately $32,000 which is included in cost of sales, and incurred an expense of approximately $155,000 related to a settlement with an institutional private equity investor which is included in other expenses. Furthermore, for the nine months ended September 30, 2004, we recognized approximately a $1,000,000 gain from extinguishment of debt which is classified as other income. The extinguishment of debt is a direct result of our settling with various vendors and content providers for lump-sum payments at a reduced amount of balances owed. We recognized a loss of approximately $1,385,000 for the nine months ended September 30, 2004 and a loss of approximately $875,000 for the nine months ended September 30, 2005 related to the fair value adjustment of derivatives in other expenses. Warrants issued with shares of common stock in a private placement are considered derivative liabilities. The derivative liability associated with the warrants has been 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. See “Derivatives” below. For the nine months ended September 30, 2005, we incurred penalties of approximately $278,000 in connection with a certain Registration Rights Agreement entered into with Barron Partners, LP and our registration statement on Form SB-2 originally filed on November 22, 2004, and which, as of the date of this filing, has yet to be declared effective. These penalties are included in other expenses. Furthermore, due to the continued delays in effectiveness of such registration statement, due principally to ongoing efforts made necessary by our determination to restate certain of our historical financial information, we have experienced an increase in legal expenses of approximately $136,000 for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Due mainly to the items stated above, our net loss increased approximately $51,000 from a net loss of approximately $907,000 for the three months ended September 30, 2004 to a net loss of approximately $958,000 for the three months ended September 30, 2005 and increased approximately $548,000 from a net loss of approximately $1,045,000 for the nine months ended September 30, 2004 to a net loss of approximately $1,593,000 for the nine months ended September 30, 2005.

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 elements and include software products, we allocate and defer revenue for the undelivered elements based on their vendor-specific objective evidence of fair value, which is generally the price charged when that element is sold separately.

We reduce product revenue for estimated returns and price protections that are based on historical experience and other factors such as the volume and price mix of products in the retail channel, trends in retailer inventory and economic trends that might impact customer demand for our products. Estimated returns are also based upon a percentage of total retail and direct sales. Direct sales accounted for approximately 65% of our 2004 fiscal year revenue. We account for cash considerations (such as sales incentives - rebates and coupons) that we give our customers as a reduction of revenue rather than as an operating expense. Product revenue is also reduced for the estimated redemption of end-user rebates on certain current product sales. We did not have any rebate programs during the three and nine months ended September 30, 2004 and 2005, respectively.

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

Product returns from distributors and Christian bookstores are allowed primarily in exchange for new products or for credit towards purchases as part of a stock-balancing program. These returns are subject to certain limitations that may exist in the contract. 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 or price protection 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. We did implement a price protection program within the third quarter of 2005 on our QuickVerse® 2005 titles within the Christian Booksellers Association retail channel due to our updated release of QuickVerse® 2006. QuickVerse® 2006 was released in late September 2005, and we believe we reserved appropriately for the price protections.

Software products are sold separately, without 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	**2005**	**% to Sales**	2004	% to Sales	Change	%
Gross sales	**$ 1,233,389**	**100%**	$ 1,125,275	100%	$ 108,114	10%
Add rebate adjustment	**4,910**	**0%**	---	0%	4,910	0%
Less reserve for sales returns and allowances	**(214,691)**	**-17%**	(115,068)	-10%	(99,623)	87%
Net sales	**$ 1,023,609**	**83%**	$ 1,010,207	90%	$ 13,401	1%

Revenues for Nine Months Ended September 30	**2005**	**% to Sales**	2004	% to Sales	Change	%
Gross sales	**$ 4,744,759**	**100%**	$ 3,898,250	100%	$ 846,510	22%
Add rebate adjustment	**14,730**	**0%**	202,548	5%	(187,817)	-93%
Less reserve for sales returns and allowances	**(781,471)**	**-16%**	(436,737)	-11%	(344,733)	79%

Net sales	**$ 3,978,019**	**84%**	$ 3,664,060	94%	$ 313,959	8%

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Gross revenues increased approximately $108,000 from approximately $1,125,000 for the three months ended September 30, 2004 to approximately $1,233,000 for the three months ended September 30, 2005 and increased approximately $847,000 from approximately $3,898,000 for the nine months ended September 30, 2004 to approximately $4,745,000 for the nine months ended September 30, 2005. Such increase is due to our new title version releases during the nine months ended September 30, 2005 including an enhanced version of our top financial and data management product, Membership Plus®, and enhanced versions of QuickVerse® 2005 Essentials and QuickVerse® 2005 Platinum editions during the first quarter of 2005. During the second quarter of 2005, we introduced QuickVerse® Macintosh in two editions, White Box edition at the suggested retail price of $49.95 and Black Box edition at the suggested retail price of $99.95. This was our first product release on the Macintosh® Operating System platform. We also released an enhanced version of Bible Illustrator® 3.0 entitled Sermon Builder® 4.0 during the second quarter of 2005. Sermon Builder® 4.0 was the first update to this particular program in over six years and has a suggested retail price of $69.95. During the third quarter of 2005, we released an upgrade to our flagship product, QuickVerse®, three months earlier as compared to our upgrade release of QuickVerse® in 2004. QuickVerse® 2006 is the first upgrade release in over five years that will be in the retail stores prior to the beginning of the holiday season. The five QuickVerse® 2006 editions that are currently available are QuickVerse® 2006 Essentials, QuickVerse® 2006 Standard, QuickVerse® 2006 Expanded, QuickVerse® 2006 Deluxe and QuickVerse® 2006 Platinum, and they range in suggested retail price from $49.95 to $799.95. Comparatively, during the nine months ended September 30, 2004, we had only two product releases which included Membership Plus® 8.0 with a suggested retail price of $199.95 to $299.95 and QuickVerse® 2005 PDA with a suggested retail price of $14.95 to $39.95. We anticipate that revenues will continue to increase throughout the year as the QuickVerse® 2006 editions reach retail stores in time for the holiday season and we will be releasing an update to our QuickVerse® PDA software within the fourth quarter of 2005.

Sales returns and allowances increased approximately $100,000 from approximately $115,000 for the three months ended September 30, 2004 to approximately $215,000 for the three months ended September 30, 2005 and increased approximately $345,000 from approximately $437,000 for the nine months ended September 30, 2004 to approximately $782,000 for the nine months ended September 30, 2005. As a percentage of gross sales, sales returns and allowances increased from approximately 10% for the three months ended September 30, 2004 to approximately 17% for the three months ended September 30, 2005 and increased from approximately 11% for the nine months ended September 30, 2004 to approximately 16% for the nine months ended September 30, 2005. The upward trend in sales returns and allowances as a percentage is attributable to our release of enhanced versions of QuickVerse® in December 2004 and late September 2005 and Membership Plus® in February of 2005. The release of these enhanced products resulted in an increased quantity of sales returns and allowances, such as price protections, of prior versions as the enhancements for both of these titles are approximately one year. In the past, product enhancements were typically extended over two to three years. We have also increased our reserve for sales returns due to a higher price point in connection with QuickVerse® Platinum being released in the first quarter of 2005. Furthermore, due to the resignation of the primary developer of Membership Plus® and some unresolved maintenance issues, we have experienced higher actual returns on the Membership Plus® 2005 product line. However, we are currently utilizing both domestic and international contracted developers to not only resolve the maintenance issues but to also continue the development for our annual update on the Membership Plus® program. We are on track to continue to release enhanced versions of our products on an annual basis; however, we do anticipate the sales return and allowances as a percentage to follow a downward trend in the future due to the increased focus of our sales efforts to the end-user and our decreased presence in the retail market. Incidents of return are lower for sales direct to the end-user than sales into the retail stores.

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Cost of Sales

Cost of sales consists primarily of royalties to third party providers of intellectual property and the direct costs and manufacturing overhead required to reproduce, package, fulfill and ship the software products. Direct costs and manufacturing overhead also include the amortized software development costs and the non-capitalized technical support wages. The direct costs and manufacturing overhead decreased approximately $21,000 from approximately $274,000 for the three months ended September 30, 2004 to approximately $253,000 for the three months ended September 30, 2005 and increased approximately $77,000 from approximately $899,000 for the nine months ended September 30, 2004 to approximately $976,000 for the nine months ended September 30, 2005. As a percentage of gross revenues, the direct costs and manufacturing overhead decreased approximately 4% for the three months ended September 30, 2005 and decreased approximately 2.5% for the nine months ended September 30, 2005. The nine months ended September 30, 2004 include the write down of a distinct category of obsolete inventory of approximately $32,000. Fulfillment costs from a third-party warehouse and included in the manufacturing overhead costs noted above decreased approximately $8,000 from approximately $53,000 for the nine months ended September 30, 2004 to approximately $45,000 for the nine months ended September 30, 2005 as we moved our retail fulfillment to a new outside entity in late October 2004. The 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 and the increased amortization of those software development costs. The amortization recognized during the nine months ended September 30, 2004 resulted from several new software releases in late 2003 and early 2004 including QuickVerse® 8.0 and Membership Plus® 8.0. Similarly, the amortization recognized during the nine months ended September 30, 2005 resulted from the December 2004 release of QuickVerse® 2005, 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 the 2005 levels as working capital remains more consistent and as more development projects are implemented in a shortened timeframe.

Royalties to third party providers of intellectual property decreased approximately $94,000 from approximately $158,000 for the three months ended September 30, 2004 to approximately $64,000 for the three months ended September 30, 2005 and increased approximately $27,000 from approximately $273,000 for the nine months ended September 30, 2004 to approximately $300,000 for the nine months ended September 30, 2005. As a percentage of gross revenues, royalties decreased from approximately 14% for the three months ended September 30, 2004 to approximately 5% for the three months ended September 30, 2005 and slightly decreased from approximately 7% for the nine months ended September 30, 2004 to approximately 6.3% for the nine months ended September 30, 2005. The decrease of royalties for the three months ended September 30, 2004 and 2005 reflects the sale of some of the older QuickVerse® versions to liquidators at a reduced price in 2004 compared to no sales to liquidators during the same three month period in 2005. However, the overall steady percentage for the nine months ended September 30, 2004 and 2005 reflects the release of the QuickVerse® 2005 editions in early December 2004, and the three additional QuickVerse® editions, specifically QuickVerse® Essentials and QuickVerse® Platinum, which were released in early March of 2005 and QuickVerse® Macintosh which was released in June 2005. We also released Sermon Builder® 4.0 in June 2005 which was an update to Bible Illustrator® 3.0. This was the first update to Bible Illustrator® 3.0 in over six years and included not only technological updates but content additions. During the year ended 2004, we renegotiated several royalty contracts which resulted in some cases in a higher royalty rate along with access to more content. The royalty rate for the fourth quarter of 2005 is expected to increase as the QuickVerse® 2006 retail products began to ship in early October 2005 compared to the QuickVerse® 2005 retail products shipping in December 2004. In addition, 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 and as more development projects are implemented for new and/or enhanced products. However, upgrade sales will continue to be subject to royalties only on content additions of the upgraded version.

Software development costs are expensed as incurred until technological feasibility and marketability has been established, at which time development costs are capitalized until the software title is available for general release to customers. 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 is segregated by title and technology platform. Once a product has been successfully released, subsequent revisions and upgrades are considered development and the costs of the revision and upgrade are capitalized. Capitalized costs are amortized on a product-by-product basis using the greater of (i) the straight-line amortization over the estimated life of the product (generally from 12 to 18 months), 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.

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Software development costs are summarized in the table below. The software development costs, consisting primarily of direct and indirect labor and related overhead charges, capitalized during the three months ended September 30, 2004 and 2005 were approximately $237,000 and approximately $172,000, respectively and approximately $415,000 and $766,000 for the nine months ended September 30, 2004 and 2005, respectively. Accumulated amortization of these development costs included in cost of sales totaled approximately $139,000 and approximately $161,000 for the three months ended September 30, 2004 and 2005, respectively and approximately $398,000 and $525,000 for the nine months ended September 30, 2004 and 2005, respectively. The overall increase in both the capitalization and amortization is a direct result of the increase in the number of development projects we have undertaken in the last two years and the consistent one year turn around on enhanced versions of our two major product lines QuickVerse® and Membership Plus®.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	**2005**	2004
Beginning balance	**$ 931,103**	$ 504,497	**$ 701,289**	$ 584,706
Capitalized	**171,990**	237,148	**766,151**	415,196
Amortized (Cost of sales)	**160,642**	139,369	**524,989**	397,626
Ending Balance	**$ 942,451**	$ 602,276	**$ 942,451**	$ 602,276
Research and development expense (General and administrative)	**$ 63,164**	$ 532	**$ 130,407**	$ 44,228

Sales, General and Administrative

Sales, General and Administrative Costs for Nine Months Ended September 30	**2005**	**% to Sales**	2004	% to Sales	Change	%
Selected expenses:						
Commissions	**$ 611,653**	**13%**	$ 576,482	15%	$ 35,171	6%
Advertising and direct marketing	**419,217**	**9%**	221,928	6%	197,288	89%
Total sales and marketing	**$ 1,030,870**	**22%**	$ 798,410	20%	$ 232,459	29%
Research and development	**$ 130,407**	**3%**	$ 44,228	1%	$ 86,180	195%
Personnel costs	**973,620**	**21%**	946,222	24%	27,398	3%
Legal	**157,970**	**3%**	21,742	1%	136,228	627%
Telecommunications	**42,605**	**1%**	107,720	3%	(65,115)	-60%
Corporate services	**73,972**	**2%**	53,965	1%	20,007	37%
Administration	**13,263**	**0%**	101,756	3%	(88,493)	-87%
Other general and administrative costs	**428,150**	**9%**	374,723	10%	53,427	14%
Total general and administrative	**$ 1,819,987**	**38%**	$ 1,650,355	42%	$ 169,632	10%

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Gross revenues increased approximately $108,000 from approximately $1,125,000 for the three months ended September 30, 2004 to approximately $1,233,000 for the three months ended September 30, 2005 and increased approximately $847,000 from approximately $3,898,000 for the nine months ended September 30, 2004 to approximately $4,745,000 for the nine months ended September 30, 2005. However, sales and marketing expenses also increased approximately $8,000 from approximately $288,000 for the three months ended September 30, 2004 to approximately $296,000 for the three months ended September 30, 2005 and increased approximately $233,000 from approximately $798,000 for the nine months ended September 30, 2004 to approximately $1,031,000 for the nine months ended September 30, 2005. Included in sales expenses, commissions to a third-party telemarketing firm increased approximately $35,000 from approximately $577,000 for the nine months ended September 30, 2004 to approximately $612,000 for the nine months ended September 30, 2005. This increase is attributed to the increased focus of our sales to the direct consumer along with the number of new and enhanced product releases during the nine months ended September 30, 2005 compared with two product releases during the nine months ended September 30, 2004. However, as a percentage of gross revenues commissions decreased from approximately 15% to approximately 13% for the nine months ended September 30, 2004 and 2005, respectively. This decrease is attributed to the in-house development of our direct telemarketing sales team as we attempt to reduce the reliance on the third-party telemarketing firm. Advertising and direct marketing costs increased approximately $197,000 from approximately $222,000 for the nine months ended September 30, 2004 to approximately $419,000 for the nine months ended September 30, 2005 and increased as a percentage of gross revenues from approximately 6% to approximately 9%, respectively. This increase is a direct result in continuing to market our products online through multiple sources, continuing to increase and focus more on our direct marketing efforts, and the increased number of publication advertisements due to the new product enhancements of QuickVerse® 2006 and Membership Plus® 2005 along with the introduction of the three new QuickVerse® editions (QuickVerse® Platinum, Macintosh and Essentials) and the updated Sermon Builder® 4.0 during the nine months ended September 30, 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 $500 for the three months ended September 30, 2004 compared to approximately $63,000 incurred for the three months ended September 30, 2005 and approximately $44,000 for the nine months ended September 30, 2004 compared to approximately $130,000 for the nine months ended September 30, 2005. The increase in 2005 reflects more research and development costs associated with maintenance issues on titles after they are released to the general public along with exploring new platforms for future products. Research and development expenses are expected to increase in future periods as we add new products and versions to our product mix along with new platforms for our current and future products.

Total personnel costs increased approximately $27,000 from approximately $946,000 for the nine months ended September 30, 2004 to approximately $973,000 for the nine months ended September 30, 2005. However, direct salaries and wages increased approximately $115,000 from approximately $1,083,000 for the nine months ended September 30, 2004 to approximately $1,198,000 for the nine months ended September 30, 2005. As a percentage of gross revenues, direct salaries and wages decreased approximately 2.5% from approximately 27.8% for the nine months ended September 30, 2004 to approximately 25.3% for the nine months ended September 30, 2005. The direct salaries and wages include approximately $36,000 and $-0- in expense for upper management year-end bonus accrual for the year ends December 31, 2004 and 2005, respectively. Furthermore, we recognized approximately $14,000 of expense related to 635,000 restricted common shares issued to employees during the nine months ended September 30, 2004. The increase in direct salaries and wages is a direct result of increasing our sales and marketing team, our development staff and our direct telemarketing sales team. The associated health care costs decreased approximately $16,000 from approximately $121,000 for the nine months ended September 30, 2004 to approximately $105,000 for the nine months ended September 30, 2005 as we restructured our health benefits plans in late October 2004. The capitalization of direct and indirect labor and related overhead charges as software development costs (see “Cost of Sales” above) increased by approximately $155,000 from approximately $206,000 for the nine months ended September 30, 2004 to approximately $361,000 for the nine months ended September 30, 2005. This increase is due to the addition of development staff and the increased amount of new development projects. It is anticipated that personnel costs will increase in future periods as operating capital is available to fund full staffing of our product development team and expansion of the direct sales staff.

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Direct legal costs increased approximately $136,000 for the nine months ended September 30, 2005 as the company continues to work through the registration process for the SB-2 registration statement. It is anticipated that legal costs will continue at increased levels as we pursue our business plan for growth by acquiring companies that are synergistic with our current product line and customer base. Telecommunications costs decreased approximately $65,000 for the nine months ended September 30, 2005 as we switched our local and long distance carriers in order to take advantage of the provider's current technology. Our increased call volume enabled us to change our service to dedicated T-1 lines which in turn reduced the long distance charges. Furthermore, we 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 release of the two major product upgrades in December 2004 and February 2005 along with the three new product releases during the nine months ended September 30, 2005. Corporate service fees increased approximately $20,000 for the nine months ended September 30, 2005. These fees are related to the hiring of an outside consultant and the expense for a 2004 issuance of a warrant to purchase 600,000 shares of common stock allocated over the term of the consulting contract. Administration expenses decreased approximately $88,000 for the nine months ended September 30, 2005 due to not incurring interest and penalty fees on back payroll taxes as we did during the nine months ended September 30, 2004. Finally, bad debt expense increased approximately $19,000 for the nine months ended September 30, 2005 as we were notified by one of our liquidation customers of the possibility that they will not be able to pay on their full balance due to us.

Other Income and Expenses

During the quarter ended September 30, 2004, we recognized an approximately $1,000,000 gain from extinguishment of debt which is included in other income. The extinguishment of debt is a direct result from one-time settlement arrangements with various vendors and content providers for lump-sum payments ranging from approximately 17% to approximately 60% of balances owed at the time. Vendors who were offered the settlement had previously provided services and/or goods to us, and the content providers were owed royalties from us. We do not anticipate this to be a recurring event in the future.

Furthermore during the quarter ended September 30, 2004, we incurred approximately $155,000 in expenses related to a settlement agreement with Swartz Private Equity, an institutional private equity investor, for early termination of the agreement. As part of a settlement agreement, we issued 295,692 shares of common stock and paid a cash lump sum of $125,000. The shares were valued at $0.10 per share. This has been included in other expenses.

On July 19, 2004, we completed an equity financing in the amount of $1,750,000 through a private placement with Barron Partners, LP where 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. Such 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 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 September 30, 2005, we had accrued a total of $278,000 (161 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 continue to accrue from June 21, 2005 until the registration statement is declared effective, at which time a negotiated reduction of such total amount is expected to be reached, the extent of which is as yet unknown, and terms of payment of which are expected to be agreed to so as to allow us to reasonably meet our ongoing operating needs. The penalties have been included in other expenses. We have 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. Although there can be no assurance, management is hopeful that we will cause such registration statement to be declared effective in the near future. The amount paid by us to date to satisfy this obligation has, and any continued delays in our ability to cause the registration statement to be declared effective coupled with additional amounts which we are and may be required to pay, will 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.

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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 accounting mandate, the derivative liability associated with these warrants has been and shall continue until our registration statement on Form SB-2 originally filed on November 22, 2004 is declared effective to be 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 September 30, 2004 and September 30, 2005, the fair value of the derivative liability was approximately $3,063,000 and approximately $2,844,000, respectively, and a fair value adjustment of approximately $1,385,000 and approximately $875,000, respectively, has been included in other expenses for the nine months then ended.

Amortization

Amortization expense increased approximately $12,000 for the nine months ended September 30, 2005. The software license acquired from The Learning Company in July of 1999 is amortized over a 10 year useful life. Amortization expense for 2005 reflects the continual amortization of the software license along with the amortization for the launch of our website, www.quickverse.com, during the second quarter of 2004.

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 September 30, 2005, management established the valuation allowance based on the assessment that the company will produce sufficient income in the future to realize its net deferred tax asset. The resulting deferred tax liability reflects income taxes payable in future periods on the net deductible differences related to the software license agreement. We currently have net operating loss carryforwards, for income tax purposes, of approximately $7,648,000. The carryforwards are the result of income tax losses generated in 2000 ($2,480,000 expiring in 2020) and 2001 ($5,168,000 expiring in 2021). We will need to achieve a minimum annual taxable income over the remaining life of the carryforward, before deduction of operating loss carryforwards, of approximately $450,000 to fully utilize the current loss carryforwards. We believe this is achievable through careful expense management and continued introduction of new products and enhanced versions of our existing products.

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

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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 September 30	**2005**	2004	Change	%
Current assets	**$ 1,025,946**	$ 1,138,544	$ (112,598)	-10%
Current liabilites	**$ 4,438,500**	$ 4,395,404	$ 43,096	1%
Retained deficit	**$ (7,764,059)**	$ (8,179,456)	$ 415,397	-5%

As of September 30, 2005, we had $1,025,946 in current assets, $4,438,500 in current liabilities and a retained deficit of $7,764,059. We had a loss before income taxes of $846,416 for the three months ended September 30, 2005 and a loss before income taxes of $1,780,411 for the nine months ended September 30, 2005. In comparison, we had a loss before income taxes of $876,208 for the three months ended September 30, 2004 and a loss before income taxes of $952,156 for the nine months ended September 30, 2004.

Cash Flows for Nine Months Ended September 30	**2005**	2004	Change	%
Cash flows provided (used) by operating activities	**$ 479,934**	$ (795,389)	$ 1,275,323	-160%
Cash flows (used) by investing activities	**$ (750,851)**	$ (422,349)	$ (328,502)	78%
Cash flows provided (used) by financing activities	**$ (30,604)**	$ 1,715,469	$ (1,746,073)	-102%

Net cash used by operating activities was approximately $795,000 for the nine months ended September 30, 2004, and net cash provided by operating activities was approximately $480,000 for the nine months ended September 30, 2005. The increase in cash provided was primarily due to an increase in the amounts received from customers resulting from increased sales along with a decrease in the amount paid out to suppliers and employees.

Net cash used in investing activities was approximately $422,000 for the nine months ended September 30, 2004 and approximately $751,000 for the nine months ended September 30, 2005. The increase in cash used for investing activities results from capitalizing costs associated with software development and Website development along with upgrading our internal computer equipment and software in order to increase our operating efficiency capabilities. Furthermore, during the nine months ended September 30, 2005 the restriction on the cash held in reserve by our merchant banker was lifted and made available to us.

Net cash provided by financing activities was approximately $1,715,000 for the nine months ended September 30, 2004, and net cash used by financing activities was approximately $31,000 for the nine months ended September 30, 2005. The net cash provided by financing activities for the nine months ended September 30, 2004 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 for Barron Partners. Cash used by financing activities for the nine months ended September 30, 2005 reflects payments made on long-term note payables.

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On July 19, 2004, we completed an equity financing in the amount of $1,750,000 through a private placement with Barron Partners, LP. Under the terms of the agreement, Barron purchased 21,875,000 restricted shares of common stock at a price of $0.08 per share. In addition, according to the terms of the agreement, Barron received two warrants to purchase common stock. The first warrant entitles Barron to purchase up to 10,937,500 shares of common stock at a price of $0.18 per share and the second warrant entitles Barron to purchase up to 10,937,500 additional shares of common stock at a price of $0.60 per share; each warrant is subject to standard adjustment provisions. These warrants have been accounted for as a liability according to EITF 00-19. In accordance with accounting mandate, the derivative liability associated with these warrants has been and shall continue until our registration statement on Form SB-2 originally filed on November 22, 2004 is declared effective to be 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 September 30, 2004 and September 30, 2005, the fair value of the derivative liability was approximately $3,063,000 and approximately $2,844,000, respectively, and a fair value adjustment of approximately $1,385,000 and approximately $875,000, respectively, has been included in other expenses for the nine months then ended.

As part of the July 19, 2004 financing transaction with Barron Partners, LP, we also 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 September 30, 2005 we have accrued $278,000 (161 days at $1,726 per day) in penalties under the terms of the Registration Rights 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 continue to accrue from June 21, 2005 until the registration statement is declared effective, at which time a negotiated reduction of such total amount is expected to be reached, the extent of which is as yet unknown, and terms of payment of which are expected to be agreed to so as to allow us to reasonably meet our ongoing operating needs. Although there can be no assurance, management is hopeful that we will cause such registration statement to be declared effective in the near future. The amount paid by us to date to satisfy this obligation has, and any continued delays in our ability to cause the registration statement to be declared effective coupled with additional amounts which we are and may be required to pay, will 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 Exhibits 10.10, 10.11, 10.12, and 10.13.

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.

At September 30, 2005, the future minimum rental payments required under these leases are as follows:

2005	$ 20,333
2006	69,451
2007	27,288
Total future minimum rental payments	$ 117,072

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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, 2005 for each of the next five years and in the aggregate are:

2005	$ 3,432
2006	13,726
2007	13,726
2008	13,726
2009	12,582
Total minimum lease payments	57,192
Less: Amount representing interest	12,086
Total obligations under capital lease	45,106
Less: Current installments of obligations under capital lease	8,922
Long-term obligation under capital lease	$ 36,184

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 the company the first quarter of fiscal 2006. We did not grant any form of share-based awards during the nine months ended September 30, 2005.

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FISCAL YEAR ENDED DECEMBER 31, 2004 COMPARED WITH FISCAL YEAR ENDED DECEMBER 31, 2003

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

Results of Operations for Years Ended December 31, 2004 and December 31, 2003

Our income before taxes decreased approximately $1,525,000 from an income of approximately $1,473,000 for the twelve months ended December 31, 2003 to a loss of approximately $52,000 for the twelve months ended December 31, 2004, and our net income decreased approximately $735,000 from a net income of approximately $1,699,000 for the twelve months ended December 31, 2003 to a net income of approximately $964,000 for the twelve months ended December 31, 2004. These decreases are a result of the following items. For the twelve months ended December 31, 2003, we wrote down accrued royalties of approximately $584,000 and wrote off a note payable of approximately $650,000 and the interest associated with the note of approximately $217,000. Both of these write down items are included in other income. We also wrote down a distinct category of obsolete inventory of approximately $61,000, which is included in cost of sales. For the twelve months ended December 31, 2004, we wrote down the reserve for rebates payable from a change in accounting estimate of approximately $142,000 and wrote down actual rebates payable of approximately $61,000 due to an overstatement. Both of these write down items are recognized as an adjustment to revenue. We also wrote down a distinct category of obsolete inventory of approximately $32,000 which is included in cost of sales, and incurred an expense of approximately $155,000 related to a settlement with an institutional private equity investor which is included in other adjustments. Furthermore, for the twelve months ended December 31, 2004, we recognized approximately a $1,000,000 gain from extinguishment of debt which is classified as other income. The extinguishment of debt is a direct result from settling with various vendors and content providers for lump-sum payments at a reduced amount of balances owed. Finally, we recognized a loss of approximately $292,000 related to the fair value adjustment of derivatives in other expenses for the twelve months ended December 31, 2004. Warrants issued with shares of common stock in a private placement are considered derivative liabilities. The derivative liability associated with the warrants has been 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. See “Derivatives” below.

Non-cash expenses related to shares of common stock issued for services increased by approximately $126,000. For the year ended December 31, 2004, we recognized approximately $149,000 in non-cash expenses related to shares of common stock and warrants issued for services and approximately $30,000 in non-cash expenses related to shares of common stock issued in a settlement agreement. Comparatively, for the year ended December 31, 2003, we recognized expenses of approximately $53,000 relating to shares of common stock issued for services. Overall, interest expense for the twelve months ended December 31, 2004 decreased by approximately $45,000 compared to 2003. This is due to our reducing trade payables and meeting the scheduled terms. Furthermore, the note liabilities interest was reduced due in part to the reclassification of the note payable in the fourth quarter of 2003. Amortization expense for the twelve months ended December 31, 2004 increased by approximately $15,000 compared to 2003. This reflects the continual amortization of the software license along with the amortization for the launch of our Website, www.quickverse.com, during the second quarter of 2004. Amortization expense related to software development costs, which is included in cost of sales, increased approximately $220,000 for the twelve months ended December 31, 2004 compared to 2003. This is a direct result from QuickVerse® 8.0 shipping in late December 2003, Membership Plus® 8.0 shipping in January 2004, QuickVerse® PDA 2005 shipping in September 2004, and QuickVerse® 2005 shipping in early December 2004.

Revenues

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

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

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

Cost of Sales

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

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

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

Software development costs are expensed as incurred as research and development until technological feasibility and marketability have been established, at which time development costs are capitalized until the software title is available for general release to customers. Software development is segregated by title and technology platform. Once a product has been successfully released, subsequent revisions and upgrades are considered development and the costs of the revision and upgrade are capitalized. Capitalized costs are amortized on a product-by-product basis using the greater of straight-line amortization over the estimated life of the product or the ratio of current revenues from the product to the total projected revenue over the life of the product. Generally, we consider technological feasibility to have been established with the release of a beta version for testing. Software development costs are summarized in the table below. The software development costs, consisting primarily of direct and indirect labor and related overhead charges, capitalized during the twelve months ended December 31, 2003 and 2004 were approximately $659,000 and approximately $692,000, respectively. Accumulated amortization of these development costs included in cost of sales totaled approximately $355,000 and approximately $575,000 for the twelve months ended December 31, 2003 and 2004, respectively. The increase in both the capitalization and amortization is a direct result of the increase in the number of development projects.

Twelve Months Ended December 31,	**2004**	2003
Beginning balance	**$ 584,706**	$ 280,502
Capitalized	**692,063**	659,487
Amortized (cost of sales)	**575,480**	355,283
Ending balance	**$ 701,289**	$ 584,706
	$ 64,653	$ 128,159

Research and development expense (General and administrative)

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Sales, General and Administrative

Sales, General and Administrative Costs for Twelve Months Ended December 31	**2004**	**% to Gross Sales**	2003	% to Gross Sales	Change	%
Selected expenses:						
Commissions	**$ 814,623**	**14%**	$ 570,381	12%	$ 244,242	43%
Advertising and direct marketing	**455,238**	**8%**	240,062	5%	$ 215,176	90%
Marketing and customer service	**10,900**	**0%**	5,511	0%	$ 5,389	98%
Total sales and marketing						