

HAIGHTS CROSS COMMUNICATIONS INC

FORM 8-K (Unscheduled Material Events)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) **December 1, 2004**

HAIGHTS CROSS COMMUNICATIONS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

333-109381

13-4087398

(Commission File Number)

(IRS Employer Identification No.)

**10 New King Street, Suite 102
White Plains, New York**

10604

(Address of Principal Executive Offices)

(Zip Code)

(914) 289-9400

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 101 Entry into a Material Definitive Agreement.

On December 1, 2004, in connection with the Financing Transactions defined below, Hights Cross Communications, Inc. (the "Company"), Hights Cross Operating Company, a wholly owned subsidiary of the Company ("HCOC"), and the direct and indirect subsidiaries of HCOC, entered into Amendment No. 3 and Consent No. 3 (the "Amendment") to the Revolving Credit Agreement, dated as of August 20, 2003, by and among HCOC, as the Borrower, the several lenders from time to time parties thereto, Bear Stearns Corporate Lending, Inc., as syndication agent, and The Bank of New York, as administrative agent for the Lenders, as amended by Amendment No. 1 and Consent No. 1, dated as of January 26, 2004, and Amendment No. 2 and Consent No. 2, dated as of April 14, 2004 (and, as further amended from time to time, the "Credit Agreement"). The Amendment amends Section 1, Section 7.2, Section 7.3 and Section 7.9 for the purpose of enabling the Company, HCOC and the direct and indirect subsidiaries of HCOC to effect the Financing Transactions referred to below.

ITEM 7.01 Regulation FD Disclosure.

As previously disclosed in its Current Report on Form 8-K filed on November 15, 2004, on November 11, 2004, the Company, HCOC and the other parties named therein entered into a definitive agreement to acquire substantially all of the assets, and assume certain liabilities, of Options Publishing, Inc., a publisher of K-8 reading, math and literature supplemental education materials and intervention programs ("Options") for aggregate consideration of \$50.0 million in cash. In addition, on the same day the Company entered into a definitive agreement to acquire the building, land, equipment and fixtures leased and used by Options in the operation of its publishing business from an affiliated entity controlled by Options' stockholders for aggregate consideration of \$1.8 million in cash (collectively with the acquisition of Options, the "Acquisition"). On November 22, 2004, the Company received notification that it had been granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Accordingly, subject to the satisfaction of certain other customary closing conditions, the Company intends to consummate the Acquisition on Friday, December 3, 2004.

On December 1, 2004, the Company issued a press release announcing that HCOC intends to offer, subject to market and other conditions, \$20.0 million aggregate principal amount of its senior notes due 2011 in a private offering. In connection with the senior notes offering, HCOC intends to enter into a new \$30.0 million senior secured term loan, which loan would rank equally with, and is expected to be on terms that are substantially the same as the terms of, its existing senior secured term loan (the new senior secured term loan, collectively with the senior notes offering, the "Financing Transactions"). A copy of the press release announcing the Financing Transactions is attached to this Current Report on Form 8-K as Exhibit 99.1.

In connection with the Financing Transactions, the Company intends to disclose in offering materials relating to the Financing Transactions certain information that has not previously been reported. These disclosures are attached to this Current Report on Form 8-K as Exhibits 99.2, 99.3 and 99.4, respectively, and consist of:

- unaudited financial statements of Options Publishing, Inc. for the nine months ended September 30, 2004 and 2003 and the audited financial statements for the fiscal years ended December 31, 2001, 2002 and 2003;
- pro forma consolidated financial statements of the Company as of September 30, 2004 which assumes that the Options Acquisition closed on such date, for the nine months ended September 30, 2004 and 2003 and for the year ended December 31, 2003 (unaudited) which assumes that the Buckle Down and Options Acquisitions closed as of the beginning of each period; and
- reconciliation of pro forma net loss to pro forma EBITDA and pro forma Adjusted EBITDA for the year ended December 31, 2003, the nine months ended September 30, 2004 and 2003 and the twelve months ended September 30, 2004 (unaudited).

As of December 1, 2004, the Company reaffirms its previously communicated full year 2004 earnings guidance, including its outlook for the fourth quarter 2004. The Company anticipates modest full year 2004 revenue growth versus 2003, excluding the April 15, 2004

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acquisition of Buckle Down Publishing. Including Buckle Down Publishing prospectively from the acquisition date of April 15, 2004, the Company anticipates stronger revenue growth for the full year 2004 versus 2003 results, which did not benefit from the inclusion of Buckle Down Publishing. The Company further anticipates that Adjusted EBITDA for the full year 2004, excluding the April 15, 2004 acquisition of Buckle Down Publishing and excluding non-recurring restructuring and related charges, will show a slight decline over Adjusted EBITDA for the full year 2003 due, in large part, to increased sales and marketing investments by the Company in its businesses. Including Buckle Down Publishing prospectively from the acquisition date of April 15, 2004, the Company anticipates that Adjusted EBITDA for the full year 2004 will show slight growth versus 2003 results, which did not benefit from the inclusion of Buckle Down Publishing. Finally, the Company anticipates a net loss for the full year 2004 that will be substantially greater than the net loss incurred in 2003. Management believes that this decline is due, in part, to increased sales and marketing investments in its businesses, but is largely caused by increased amortization of product development expenses, which the Company expects to continue to rise as it increases product development spending to grow its businesses, and substantially increased interest expense, which resulted from the Company's required adoption on January 1, 2004 of SFAS 150, which resulted in the inclusion of non-cash preferred dividends on its Series B senior preferred stock in interest expense.

On the basis of this full year 2004 guidance, the Company anticipates that revenue for the fourth quarter 2004 versus the fourth quarter 2003 will show slight growth, excluding the April 15, 2004 acquisition of Buckle Down Publishing. The anticipated slowdown in fourth quarter 2004 revenue growth versus the prior year period reflects, among other things, (i) the December 2003 first bulk shipment of Oakstone's MKSAP, its largest product; (ii) anticipated softness at Triumph Learning (including Buckle Down Publishing), as demand for test preparation products continues to slow in advance of new tests expected to be introduced under the No Child Left Behind (NCLB) Act during 2005; and (iii) continued softness in sales at Chelsea House. Management believes that it is likely that the softness in revenue at its Triumph Learning business (including Buckle Down Publishing) will continue during the first half of 2005, and that its Chelsea House business could continue to show declining year-over-year comparisons in the future. Including Buckle Down Publishing prospectively from the acquisition date of April 15, 2004, the Company anticipates stronger revenue growth for the fourth quarter 2004 versus the fourth quarter 2003, which did not benefit from the inclusion of Buckle Down Publishing.

Furthermore, the Company anticipates that Adjusted EBITDA for the fourth quarter 2004, excluding Buckle Down Publishing, will show a significant decline versus Adjusted EBITDA for the fourth quarter 2003. This decline in Adjusted EBITDA for the fourth quarter 2004 reflects the slower revenue growth discussed earlier, combined with the Company's continuing operating investments in sales and marketing growth initiatives, including building sales forces at the business unit level, increasing direct market program expenditures and market and product research, as well as investments to build product development capacity. Management believes that these initiatives will benefit the Company in the future, in part, due to

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the anticipated growth opportunity resulting from the release of Federal funding provided under the NCLB Act, which is expected to begin in the second half of 2005. Including Buckle Down Publishing prospectively from the acquisition date of April 15, 2004, the Company anticipates that Adjusted EBITDA for the fourth quarter 2004 will also show a significant decline versus 2003.

Finally, the Company anticipates a net loss for the fourth quarter 2004 that will be substantially greater than the net loss incurred in the fourth quarter 2003. Management believes that this decline will be caused, in part, by increased sales and marketing investments in its businesses, but largely caused by increased amortization of product development expenses, which the Company expects to continue to rise as it increases product development spending to grow its businesses, and substantially increased interest expense, which resulted from the Company's required adoption on January 1, 2004 of SFAS 150, which resulted in the inclusion of non-cash preferred dividends on its Series B senior preferred stock in interest expense.

In early 2004, the Company anticipated, and provided guidance to the effect, that full year 2004 revenue would be essentially flat compared with revenue for the full year 2003, and that adjusted EBITDA would lag revenue performance as a result of the Company's planned investments in sales and marketing described above. With modest revenue growth for full year 2004 now expected, excluding Buckle Down Publishing, management believes that its investments in sales and marketing benefited the Company in 2004.

The information in this Item 7.01 of this Form 8-K and Exhibits 99.1, 99.2, 99.3 and 99.4 attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Safe Harbor Statement: This Current Report on Form 8-K contains forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "potential" and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. These risks, uncertainties and other factors may cause our actual results, performances or achievements to be materially different from those expressed or implied by our forward-looking statements. Factors that may cause our actual results to differ materially from our forward-looking statements include, among others, changes in external market factors, changes in our business or growth strategy, or an inability to execute our strategy due to changes in our industry or the economy generally, the emergence of new or growing competitors and various other competitive factors. In light of these risks and uncertainties, there can be no assurance that the events and circumstances described in forward-looking statements contained in this Current Report on Form 8-K will in fact occur. You should read this Current Report on Form 8-K, including the exhibits attached hereto, completely and with the understanding that our actual results may be materially different from what we expect. We will not update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.

ITEM 9.01 Financial Statements and Exhibits.

(c) Exhibits. The following exhibits are being furnished herewith.

Exhibit No.	Description
99.1	Press Release of Haight Cross Communications, Inc. issued December 1, 2004.
99.2	Unaudited financial statements for Options Publishing, Inc. for the nine months ended September 30, 2004 and 2003 and the audited financial statements for the fiscal years ended December 31, 2001, 2002 and 2003.

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Exhibit No.	Description
99.3	Pro forma consolidated financial statements of the Company as of September 30, 2004, for the nine months ended September 30, 2004 and 2003 and for the year ended December 31, 2003 (unaudited).
99.4	Reconciliation of pro forma net loss to pro forma EBITDA and pro forma adjusted EBITDA for the year ended December 31, 2003, the nine months ended September 30, 2003 and 2004 and the twelve months ended September 30, 2004 (unaudited).

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HAIGHTS CROSS COMMUNICATIONS, INC.

Date: December 1, 2004

By: /s/ Paul J. Crecca

Name: Paul J. Crecca

Title: Executive Vice President and Chief
Financial Officer

EXHIBIT INDEX

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99.4	Reconciliation of pro forma net loss to pro forma EBITDA and pro forma Adjusted EBITDA for the year ended December 31, 2003, the nine months ended September 30, 2004 and 2003 and the twelve months ended September 30, 2004 (unaudited).

EXHIBIT 99.1

HAIGHTS CROSS COMMUNICATIONS
PRESS RELEASE

Investor Contact:
Paul J. Crecca
(914) 289-9420
pjcrecca@hightscross.com

EDITORIAL CONTACT:

MICHAEL STUGRIN

(562) 498-6353 FOR IMMEDIATE RELEASE mstugrin@earthlink.net

**HAIGHTS CROSS COMMUNICATIONS PLANS \$20.0 MILLION PRIVATE OFFERING
AND NEW \$30.0 MILLION TERM LOAN**

White Plains, NY, December 1, 2004 -- Hights Cross Communications, Inc. (HCC), a leading educational and library publisher, today announced that its wholly owned subsidiary, Hights Cross Operating Company (HCOC) intends to offer, subject to market and other conditions, \$20.0 million aggregate principal amount of its senior notes due 2011 in a private offering. The offered notes would be issued under the indenture governing HCOC's outstanding senior notes, and would bear interest at the rate of 11 -3/4%, the same rate that applies to its outstanding senior notes. In connection with the senior notes offering, HCOC intends, subject to market and other conditions, to enter into a new \$30.0 million senior secured term loan with institutional lenders, which loan would rank equally with, and is expected to be on terms that are substantially the same as the terms of, its existing senior secured term loan. If the foregoing financing transactions are completed, HCOC plans to use the net proceeds to fund future acquisitions and for other general corporate purposes.

HCOC intends to offer the senior notes in reliance on an exemption from registration for offers and sales of securities that do not involve a public offering. The offering and sale of the senior notes have not been registered under the Securities Act of 1933, as amended, or any state securities laws, and the notes may not be re-offered or resold in the United States absent registration or an applicable exemption from registration requirements of the Securities Act of 1933, as amended, and applicable state securities laws. This news release does not constitute an offer to sell or a solicitation of an offer to buy the senior notes and shall not constitute an offer, solicitation or sale in any jurisdiction in which such an offer, solicitation or sale would be unlawful.

ABOUT HAIGHTS CROSS COMMUNICATIONS:

Founded in 1997 and based in White Plains, NY, Hights Cross Communications is a premier educational and library publisher dedicated to creating the finest books, audio products, periodicals, software and online services, serving the following markets: K-12 supplemental education, public and school library publishing, and medical continuing education publishing. Hights Cross companies include: Sundance/Newbridge Educational Publishing (Northborough, MA), Triumph Learning (New York, NY), Buckle Down Publishing (Iowa City, IA), Oakstone Publishing (Birmingham, AL), Recorded Books (Prince Frederick, MD), and Chelsea House Publishers (Northborough, MA). For more information, visit www.hightscross.com.

Safe Harbor Statement: This press release contains forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "potential" and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. These risks, uncertainties and other factors may cause our actual results, performances or achievements to be materially different from those expressed or implied by our forward-looking statements. Factors that may cause our actual results to differ materially from our forward-looking statements include, among others, changes in external market factors, changes in our business or growth strategy, or an inability to execute our strategy due to changes in our industry or the economy generally, the emergence of new or growing competitors and various other competitive factors. In light of these risks and uncertainties, there can be no assurance that the events and circumstances described in forward-looking statements contained in this press release will in fact occur. You should read this press release completely and with the understanding that our actual results may be materially different from what we expect. We will not update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.

**ROBERT J. CONSAGA, JR., P.C.
CERTIFIED PUBLIC ACCOUNTANT**

**ONE STILES ROAD, SUITE 105
SALEM, NEW HAMPSHIRE 03079**

ACCOUNTANT'S REVIEW REPORT

Ms. Barbara Russell
President
Options Publishing, Inc.
Merrimack, N.H.

I have reviewed the accompanying balance sheets of Options Publishing, Inc. (an S corporation) as of September 30, 2004 and September 30, 2003 and the related statements of operations, stockholders equity, and cash flows for the nine months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Options Publishing, Inc.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review, I am not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

Robert J. Consaga, Jr., P.C.

Salem, New Hampshire
November 22, 2004

TELEPHONE (603) 894-1175 FAX (603) 685-0363

OPTIONS PUBLISHING, INC.
BALANCE SHEETS
For the Periods Ended September 30, 2004 and 2003
(See Accountant's Review Report)

ASSETS	2004	2003
Cash (Note A)	\$ 722,522	\$ (151,559)
Accounts receivable (Note A)	2,086,063	1,796,843
Inventory (Note A)	1,772,365	1,426,888
Prepaid (Note A)	315,243	592,422
	-----	-----
Total current assets	4,896,193	3,664,594
	-----	-----
Office equipment (Note A)	133,263	120,629
Computer equipment	110,047	84,479
Leasehold improvements	32,695	32,695
	-----	-----
	276,005	237,803
Less: accumulated depreciation	174,699	135,215
	-----	-----
Net property, plant and equipment	101,306	102,588
	-----	-----
Inter-company with Merrimack M&R Realty (Note C)	199,818	283,966
Other assets (Note H)	0	6,533
	-----	-----
Total assets	\$ 5,197,317	\$ 4,057,681
	=====	=====
 LIABILITIES		
Accounts payable and accrued expenses (Note A)	\$ 1,875,587	\$ 2,064,058
Line of credit (Note B)	0	400,000
Current income tax payable - state (Note A)	246,956	80,059
	-----	-----
Total current liabilities	2,122,543	2,544,117
	-----	-----
Deferred tax payable (Note I)	8,031	6,123
	-----	-----
Total liabilities	\$ 2,130,574	\$ 2,550,240
	-----	-----
 STOCKHOLDERS EQUITY		
Common stock, no par value, 900,000 Class A (Voting) shares and 100,000 Class B (Nonvoting) shares authorized and 90,000 Class A shares and 10,000 Class B shares issued and outstanding (Note D)	\$ 0	\$ 0
Paid in capital	(3,850,536)	(2,578,408)
Retained earnings	6,917,279	4,085,849
	-----	-----
Total retained earnings	3,066,743	1,507,441
	-----	-----
Total liabilities and stockholders equity	\$ 5,197,317	\$ 4,057,681
	=====	=====

The accompanying notes are an integral part of the financial statement

OPTIONS PUBLISHING, INC.
STATEMENTS OF OPERATIONS
For the Nine Months Ended September 30, 2004 and 2003
(See Accountant's Review Report)

	2004	2003
Revenue	\$ 15,640,076	\$ 13,001,405
less: Cost of sales (Note E)	4,916,665	4,824,465
Gross profit	10,723,411	8,176,940
Operating expenses: (Note F)		
Catalog expense	317,999	308,910
Selling/marketing expense	4,560,523	4,081,868
Occupancy expense	215,494	214,564
General and administrative expense	1,632,244	1,424,495
Total operating expenses	6,726,260	6,029,837
Income after operating expenses	3,997,151	2,147,103
Other Income:		
Other income	20,545	14,746
Interest income	4,402	1,571
Interest expense	(12,711)	(10,314)
Net income before income taxes	4,009,387	2,153,106
State income tax expense/(benefit) (Note I)	282,482	152,317
Net income	\$ 3,726,905	\$ 2,000,789

The accompanying notes are an integral part of the financial statements

OPTIONS PUBLISHING, INC.
STATEMENTS OF STOCKHOLDERS EQUITY
For the Periods Ended September 30, 2004 and 2003
(See Accountant's Review Report)

	Common Stock	Paid in Capital	Retained Earnings	Total
	-----	-----	-----	-----
Balance, December 31, 2002	\$ 0	\$(1,900,307)	\$ 2,581,478	\$ 681,171
Net Income			2,000,789	2,000,789
Shareholder distributions		(678,101)	(496,418)	(1,174,519)
	-----	-----	-----	-----
Balance, September 30, 2003	\$ 0	\$(2,578,408)	\$ 4,085,849	\$ 1,507,441
Net income			(895,475)	(895,475)
Shareholder distributions			0	0
	-----	-----	-----	-----
Balance, December 31, 2003	\$ 0	\$(2,578,408)	\$ 3,190,374	\$ 611,966
Net Income			3,726,905	3,726,905
Shareholder distributions		(1,272,128)		(1,272,128)
	-----	-----	-----	-----
Balance, September 30, 2004	\$ 0	\$(3,850,536)	\$ 6,917,279	\$ 3,066,743
	=====	=====	=====	=====

The accompanying notes are an integral part of the financial statements

OPTIONS PUBLISHING, INC.
STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2004 and 2003
(See Accountant's Review Report)

Cash flows from operating activities:	2004	2003
	-----	-----
Net income	\$ 3,726,905	\$ 2,000,789
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	31,228	28,054
Amortization	4,471	4,523
(Increase) decrease in:		
Accounts receivable	(1,145,666)	(907,200)
Inventory	(193,365)	(488,925)
Prepaid expenses	(13,616)	(85,505)
State tax receivable	0	0
Increase (decrease) in:		
Accounts payable and accrued expenses	(76,806)	94,857
Deferred tax payable	(546)	720
	-----	-----
Total adjustments	(1,394,300)	(1,353,476)
	-----	-----
Net cash provided (used) by operating activities	2,332,605	647,313
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(37,277)	(40,565)
	-----	-----
Net cash provided (used) by investing activities	(37,277)	(40,565)
	-----	-----
Cash flows from financing activities:		
New borrowing:		
Long-term	0	0
Short-term	350,000	900,000
Debt reductions:		
Long-term	0	0
Short-term	(750,000)	(600,000)
Inter-company with Merrimack M&R Realty LLC	56,099	(3,901)
Shareholder distributions	(1,272,127)	(1,174,520)
	-----	-----
Net cash provided (used) by financing activities	(1,616,028)	(878,421)
	-----	-----
Net increase (decrease) in cash	679,300	(271,673)
Cash, beginning of period	43,222	120,114
	-----	-----
Cash, end of period	\$ 722,522	\$ (151,559)
	=====	=====
Supplemental Disclosures		
Interest paid	\$ 14,411	\$ 10,314
State income taxes paid	59,524	98,540

The accompanying notes are an integral part of the financial statements

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS
(See Accountant's Review Report)

A. SIGNIFICANT ACCOUNTING POLICIES:

Nature of Business

OPTIONS Publishing, Inc. is a publisher of developmental educational titles that are marketed primarily to inner city school systems throughout the United States and Canada.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Revenue and Expense Recognition

In accordance with industry practice, the Company recognizes revenue from its book titles when the product is shipped to the customer. Product and shipment terms are FOB shipping point and collectability is reasonably assured at the time of shipment. Customer returns are processed when products are returned. Customers are issued credits and the products are returned to inventory.

Cost of goods sold is recognized when the related revenue is recognized and primarily consists of book titles, product development, author royalties, and freight costs.

Product Development Costs

The Company capitalizes the costs associated with the development of new products. These costs include author fees, costs associated with artwork, photography and other external creative costs, internal staff costs and pre-press costs that are directly attributable to the products. The company fully amortizes these costs to cost of goods sold when the product is available for sale in the company's product catalog.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. The Company places its cash and cash equivalents with high quality financial institutions and limits the amount of credit exposure with any one institution. Concentrations of credit risk with respect to accounts receivable are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company sells its products only to school systems, primarily in the United States, which place orders only after funds have been appropriated. Once funds have been appropriated for Options products, a school district is required by law to spend the funds. Accordingly, bad debt allowances are not provided.

Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and consist primarily of money market funds at September 30, 2004 and 2003. These investments are not subject to significant market risk.

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS
(See Accountant's Review Report)

A. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED):

Fair Value of Financial Instruments

The carrying amounts reflected in the balance sheets for cash, receivables and loans payable approximate their respective fair values.

Property and Equipment

The Company records property and equipment at cost and provides for depreciation over the estimated useful lives of the assets using accelerated methods. Estimated useful lives are as follows:

Computer software	3 years
Computer equipment	5 years
Office equipment	5 - 7 years
Leasehold improvements	15 years

The cost of maintenance and repairs is charged to expense as incurred, while renewals and betterments are capitalized. Upon sale or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Inventory

Inventory consists primarily of book titles that the Company has proprietary rights to market. Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of replacement cost or estimated net realizable value. If a book is taken out of print, superseded by a later version, or ceases to sell, it is considered obsolete and all related inventory amounts are written-off.

Accrued Vacation

Company employees accrue vacation monthly based upon the number of hours worked. The maximum amount of vacation that can be carried forward to the next calendar year is three weeks (120 hours). The accrued vacation balance at year-end is included in the accounts payable and accrued expenses balance.

Income Taxes

The Company has elected to be taxed as an S-Corporation for federal tax purposes. Accordingly, federal taxable income is passed through to each stockholder on a pro-rata basis and federal taxes are paid at the stockholder level. Therefore, the financial statements do not reflect a provision for federal income taxes.

The Company incurs state income taxes and the financial statements include a provision for the state tax effect of transactions reported in the financial statements. The provision consists of taxes currently due, and deferred taxes related primarily to differences between the basis of property and equipment for financial and income tax reporting.

Advertising Costs

The Company expenses advertising costs as they are incurred.

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS
(See Accountant's Review Report)

B. LINE OF CREDIT

The Company has a line of credit with a bank in the amount of \$1,000,000. Funds in the amount of \$0 have been drawn against the line as of September 30, 2004. The line is renewable annually and is payable upon demand if certain loan conditions are not met. Interest at the prime rate(4.75% at September 30) is added to the amount owed on the line on a monthly basis. The note is collateralized by a first position security interest in all assets of the company.

C. DESCRIPTION OF LEASING ARRANGEMENTS AND RELATED PARTY TRANSACTIONS:

The Company moved its operations to a new facility in December 2001, which is owned by Merrimack M&R Realty LLC (a related party). The Company leases this facility under a five-year cancelable operating lease expiring in October 2006. The lease contains an option to renew for one five year period for a negotiated rental amount and is subject to the same terms as the original lease period. The Company is required to pay, as a management fee, any common area maintenance fees pursuant to the lease agreement.

The following is a schedule of future minimum lease payments required under the above lease as of September 30:

Period Ending September 30, -----	Amount -----
2005	\$ 312,000
2006	312,000
2007	26,000

	\$ 650,000
	=====

Rental expense amounted to \$208,000 and \$208,000 for the periods ended September 30, 2004 and 2003, respectively.

The Company also has a five year operating lease agreement with Merrimack M&R Realty LLC (a related party) for furniture and equipment which is owned by Merrimack M&R Realty LLC. Options advanced funds to Merrimack M&R Realty LLC to purchase the furniture and equipment. The inter-company balance with Merrimack M&R Realty LLC represents the funds advanced by Options to purchase the furniture and equipment.

The following is a schedule of future minimum lease payments required under the above lease as of September 30:

Period Ending September 30, -----	Amount -----
2005	\$ 84,148
2006	84,148
2007	7,012

	\$ 175,308
	=====

The reduction in the inter-company balance with Merrimack M&R Realty LLC for payments made for the periods ended September 30, 2004 and 2003 was \$56,099 and \$56,099, respectively.

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS
(See Accountant's Review Report)

D. COMMON, PREFERRED STOCK, OPTIONS AND PHANTOM STOCK PLAN

The authorized capital stock of the Company is 900,000 shares and 100,000 shares of Class A (Voting) and Class B (Nonvoting) no par Common Stock respectively. There are currently issued and outstanding, 90,000 shares Class A Common Stock and 10,000 shares Class B Common Stock. The issued and outstanding shares of Common Stock have been duly authorized and validly issued, are fully paid and nonassessable and were issued in compliance with all applicable state and federal laws concerning the issuance of securities. One of the shareholders, after he has been a shareholder for a minimum of six years, has the option of requiring the corporation and or the Non-Affected Shareholders to purchase all, but not less than all, of his Class A shares at any time. The purchase price will be determined by a valuation of the shares to be performed if the shareholder exercises his option. The option is exercisable by the shareholder tendering written notice of such exercise to the Corporation and to the Non-Affected Shareholders.

The Company has a Phantom Stock Plan to benefit a limited number of key employees in the event of normal retirement or in the event that the company is sold to a third party. A Phantom Stock Plan is commonly established for key employees of a Subchapter S Corporation who do not or cannot have an ownership interest in an "S" Corporation. This type of plan allows key employees to share in the long-term growth of a closely held company without actually having an ownership interest in the company, due to Internal Revenue Code restrictions regarding ownership and classes of stock that may be outstanding. These "Key employees" are people who are employed by the company that are in a position to contribute materially to its continued growth and development and to its future financial success.

Awards under this plan are granted to Participants in the form of Performance Shares, which are credited to a Performance Account to be maintained for each Participant. Each Participant shall become vested in this plan upon the earlier to occur of (1) the completion of three (3) years of service for vesting following the close of the calendar year with respect to which the Performance Share in question pertains; or (2) a sale of the Company. The maximum amount of benefit that a Participant may receive is equal to approximately one percent of the company's value at the measurement date. As of September 30, 2004 no accruals have been included in these financial statements.

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS
(See Accountant's Review Report)

E. COST OF SALES:	2004	2003
-----	-----	-----
Inventory, beginning of period	\$1,579,000	\$ 937,963
Purchases	2,133,039	2,199,780
Freight	614,126	494,661
Author royalties	816,412	717,684
-----	-----	-----
Cost of goods available for sale	5,142,577	4,350,088
Inventory, end of period	1,772,365	1,426,888
-----	-----	-----
Cost of sales, not including product development	\$3,370,212	\$2,923,200
Product development (Note G)	1,546,453	1,901,265
-----	-----	-----
Cost of sales	\$4,916,665	\$4,824,465
	=====	=====

F. OPERATING EXPENSES:

Catalog expenses:	2004	2003
-----	-----	-----
Prepaid catalog expense	\$ 317,999	\$ 308,910
-----	-----	-----
Total	\$ 317,999	\$ 308,910
-----	-----	-----
Selling/marketing expenses:		
Wages	\$ 928,934	\$ 776,918
Payroll taxes	95,930	81,278
Advertising	33,681	42,725
Brochures/promotional materials	593,432	559,657
Commissions	1,640,740	1,372,918
Copyrights/state listings	8,585	3,703
Correlation	21,303	7,300
Direct mailing-insertion/mailing	58,001	55,964
Direct mailing-names bought	17,139	20,264
Direct mailing-postage	238,001	224,836
Direct mailing-printing	27,387	62,415
Exhibit expense	331,597	354,779
Marketing-general	94,449	80,659
Marketing-printing	9,673	46,546
Office supplies	26,984	22,664
Postage	9,675	6,987
Telephone	34,771	29,523
Sales consulting	23,188	19,525
Sales meeting	200,792	175,144
Sales travel and entertainment	166,261	138,063
-----	-----	-----
Total	\$4,560,523	\$4,081,868
-----	-----	-----
Occupancy expenses:		
Rent (Note C)	\$ 208,000	\$ 208,000
Insurance-building	7,494	6,564
-----	-----	-----
Total	\$ 215,494	\$ 214,564
-----	-----	-----

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS
(See Accountant's Review Report)

F.	OPERATING EXPENSES (CONTINUED):	2004	2003
-----		-----	-----
	General and administrative expenses:		
	Wages	\$ 957,274	\$ 782,590
	Payroll taxes	68,384	63,056
	Advertising - employment	4,673	4,430
	Bad debt (Note A)	209	(213)
	Bank charges	11,150	7,586
	Car lease	2,400	2,512
	Donations	857	1,275
	Dues and subscriptions	13,246	9,425
	Equipment lease (Note C)	58,558	58,316
	Insurance	168,487	158,471
	IRA match - company portion (Note J)	54,000	35,500
	Maintenance expense	7,461	6,283
	Management fee (Note C)	58,250	52,500
	Office supplies	24,999	31,005
	Online expense	2,142	2,377
	Postage	41,253	68,480
	Professional fees	32,804	19,167
	Telephone/fax	22,482	25,777
	Training	5,493	2,897
	Travel	9,586	12,454
	Warehouse expense	52,837	48,030
	Depreciation	31,228	28,054
	Amortization	4,471	4,523
		-----	-----
	Total	\$ 1,632,244	\$ 1,424,495
		-----	-----
	Total operating expenses	\$ 6,726,260	\$ 6,029,837
		=====	=====

G.	PRODUCT DEVELOPMENT EXPENSES:	2004	2003
-----		-----	-----
	Product development expense	\$ 991,418	\$1,240,443
	Office supplies	10,374	2,461
	Postage	10,461	22,049
	Telephone	4,575	1,494
	Office rent	12,888	0
	Outside design	53,966	34,728
	Production	203,644	19,406
	Product revisions	232,264	527,904
	Travel	20,190	20,102
	Website	6,673	32,678
		-----	-----
	Total	\$1,546,453	\$1,901,265
		-----	-----

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS
(See Accountant's Review Report)

H. OTHER ASSETS:

The other assets balance consists of the unamortized portion of financing costs at September 30, 2004. Financing costs are being amortized over a seven year period.

I. INCOME TAXES:

The provision for income taxes includes the following at September 30:

	2004	2003
	-----	-----
Deferred state tax payable	\$8,031	\$6,123
	=====	=====

J. EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution retirement plan covering substantially all full-time employees. The Company matches employees contributions to up to four percent of compensation. Expense related to these plans as of September 30, 2004 and 2003 amounted to \$54,000 and \$35,500, respectively.

K. RELATED PARTY TRANSACTIONS

The Company made royalty payments to related parties as of September 30, 2004 and 2003, which amounted to \$400,417 and \$303,526, respectively.

ROBERT J. CONSAGA JR., P.C.
CERTIFIED PUBLIC ACCOUNTANT

ONE STILES ROAD, SUITE 105
SALEM, NEW HAMPSHIRE 03079

INDEPENDENT AUDITOR'S REPORT

The Shareholders of Options Publishing, Inc.

I have audited the accompanying balance sheets of Options Publishing, Inc. (An S Corporation) as of December 31, 2003, December 31, 2002, and December 31, 2001, and the related statements of operations, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Options Publishing, Inc. as of December 31, 2003, December 31, 2002, and December 31, 2001, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Robert J. Consaga, Jr., P.C.
Salem, New Hampshire

November 15, 2004

TELEPHONE (603) 894-1175 FAX (603) 685-0363

OPTIONS PUBLISHING, INC.
BALANCE SHEETS
For the Years Ended December 31, 2003, 2002 and 2001

ASSETS	2003	2002	2001
Cash (Note A)	\$ 43,222	\$ 120,114	\$ 745,430
Accounts receivable (Note A)	940,396	889,643	808,323
Inventory (Note A)	1,579,000	937,963	853,368
Prepaid (Note A)	275,001	506,918	415,900
State tax receivable (Note J)	26,626	0	0
Total current assets	2,864,245	2,454,638	2,823,021
Office equipment (Note A)	120,629	95,556	84,556
Computer equipment	84,479	68,987	60,360
Leasehold improvements	32,695	32,695	0
	237,803	197,238	144,916
Less: accumulated depreciation	142,544	107,161	73,190
Net property, plant and equipment	95,259	90,077	71,726
Inter-company with Merrimack M&R Realty (Note C)	255,917	280,065	241,298
Other assets (Note I)	4,471	11,055	17,085
Total assets	\$3,219,892	\$2,835,835	\$3,153,130
LIABILITIES			
Accounts payable and accrued expenses (Note A)	\$2,175,897	\$2,027,327	\$1,981,233
Line of credit (Note C)	400,000	100,000	0
Current income tax payable - state (Note A)	23,452	21,934	19,814
Current portion of subordinated debt (Note B)	0	0	300,000
Total current liabilities	2,599,349	2,149,261	2,301,047
Deferred tax payable (Note J)	8,577	5,403	4,700
Total liabilities	\$2,607,926	\$2,154,664	\$2,305,747
STOCKHOLDERS EQUITY			
Common stock, no par value, 900,000 Class A(Voting) shares and 100,000 Class B(Nonvoting) shares authorized and 90,000 Class A shares and 10,000 Class B shares issued and outstanding(Note E)	\$ 0	\$ 0	\$ 0
Paid in capital	(2,578,408)	(1,900,307)	(500,731)
Retained earnings	3,190,374	2,581,478	1,348,114
Total retained earnings	611,966	681,171	847,383
Total liabilities and stockholders equity	\$3,219,892	\$2,835,835	\$3,153,130

The accompanying notes are an integral part of the financial statements

OPTIONS PUBLISHING, INC.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2003, 2002 and 2001

	2003	2002	2001
	-----	-----	-----
Revenue	\$16,278,457	\$14,167,571	\$10,072,645
less: Cost of sales (Note F)	6,560,263	5,040,889	3,549,198
	-----	-----	-----
Gross profit	9,718,194	9,126,682	6,523,447
Operating expenses: (Note G)			
Catalog expense	510,520	470,924	415,637
Selling/marketing expense	5,606,870	4,267,272	3,089,403
Occupancy expense	321,453	320,878	181,994
General and administrative expense	2,082,778	2,732,102	1,866,953
	-----	-----	-----
Total operating expenses	8,521,621	7,791,176	5,553,987
	-----	-----	-----
Income after operating expenses	1,196,573	1,335,506	969,460
	-----	-----	-----
Other Income:			
Other income	14,921	7,592	7,991
Interest income	1,739	8,231	19,185
Interest expense	(15,603)	(17,864)	(24,795)
	-----	-----	-----
Net income before income taxes	1,197,630	1,333,465	971,841
State income tax expense/(benefit) (Note J)	92,316	100,101	84,821
	-----	-----	-----
Net income	\$ 1,105,314	\$ 1,233,364	\$ 887,020
	=====	=====	=====

The accompanying notes are an integral part of the financial statements

OPTIONS PUBLISHING, INC.
STATEMENTS OF STOCKHOLDERS EQUITY
For the Years Ended December 31, 2003, 2002 and 2001

	Common Stock	Paid in Capital	Retained Earnings	Total
Balance, December 31, 2000	\$ 0	\$ 53,714	\$ 461,094	\$ 514,808
Net Income			887,020	887,020
Shareholder distributions		(554,445)		(554,445)
Balance, December 31, 2001	\$ 0	\$ (500,731)	\$1,348,114	\$ 847,383
Net Income			1,233,364	1,233,364
Shareholder distributions		(1,399,576)		(1,399,576)
Balance, December 31, 2002	\$ 0	\$(1,900,307)	\$2,581,478	\$ 681,171
Net Income			1,105,314	1,105,314
Shareholder distributions		(678,101)	(496,418)	(1,174,519)
Balance, December 31, 2003	\$ 0 =====	\$(2,578,408) =====	\$3,190,374 =====	\$ 611,966 =====

The accompanying notes are an integral part of the financial statements

OPTIONS PUBLISHING, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2003, 2002 and 2001

	2003	2002	2001
Cash flows from operating activities:			
Net income	\$1,105,314	\$1,233,364	\$ 887,020
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	35,383	33,971	24,775
Amortization	6,584	6,030	6,030
(Increase) decrease in:			
Accounts receivable	(50,753)	(81,320)	(66,758)
Inventory	(641,038)	(84,595)	(40,950)
Prepaid expenses	231,917	(91,018)	(186,150)
State tax receivable	(26,626)	0	0
Increase (decrease) in:			
Accounts payable and accrued expenses	150,089	48,214	607,676
Deferred tax payable	3,174	703	2,823
Total adjustments	(291,270)	(168,015)	347,446
Net cash provided (used) by operating activities	814,044	1,065,349	1,234,466
Cash flows from investing activities:			
Purchase of property and equipment	(40,565)	(52,322)	(70,536)
Net cash provided (used) by investing activities	(40,565)	(52,322)	(70,536)
Cash flows from financing activities:			
New borrowing:			
Long-term	0	0	0
Short-term	1,000,000	465,000	450,000
Debt reductions:			
Long-term	0	0	(300,000)
Short-term	(700,000)	(665,000)	(150,142)
Inter-company with Merrimack M&R Realty LLC	24,148	(38,767)	(241,298)
Shareholder distributions	(1,174,519)	(1,399,576)	(554,445)
Net cash provided (used) by financing activities	(850,371)	(1,638,343)	(795,885)
Net increase (decrease) in cash	(76,892)	(625,316)	368,045
Cash, beginning of period	120,114	745,430	377,385
Cash, end of period	\$ 43,222	\$ 120,114	\$ 745,430
Supplemental Disclosures			
Interest paid	\$ 13,902	\$ 23,864	24,537
State income taxes paid	119,318	97,278	103,797

The accompanying notes are an integral part of the financial statements

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES:

Nature of Business

OPTIONS Publishing, Inc. is a publisher of developmental educational titles that are marketed primarily to inner city school systems throughout the United States and Canada.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Revenue and Expense Recognition

In accordance with industry practice, the Company recognizes revenue from its book titles when the product is shipped to the customer. Product and shipment terms are FOB shipping point and collectability is reasonably assured at the time of shipment. Customer returns are processed when products are returned. Customers are issued credits and the products are returned to inventory.

Cost of goods sold is recognized when the related revenue is recognized and consists primarily of book titles, product development, author royalties, and freight costs.

Product Development Costs

The Company capitalizes the costs associated with the development of new products. These costs include author fees, costs associated with artwork, photography and other external creative costs, internal staff costs and pre-press costs that are directly attributable to the products. The company fully amortizes these costs to cost of goods sold when the product is available for sale in the company's product catalog.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. The Company places its cash and cash equivalents with high quality financial institutions and limits the amount of credit exposure with any one institution. Concentrations of credit risk with respect to accounts receivable are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company sells its products only to school systems, primarily in the United States, which place orders only after funds have been appropriated. Once funds have been appropriated for Options

products, a school district is required by law to spend the funds. Accordingly, bad debt allowances are not provided.

Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and consist primarily of money market funds at December 31, 2003, 2002, and 2001. These investments are not subject to significant market risk.

OPTIONS PUBLISHING, INC. NOTES TO FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED):

Fair Value of Financial Instruments

The carrying amounts reflected in the balance sheets for cash, receivables and loans payable approximate their respective fair values.

Property and Equipment

The Company records property and equipment at cost and provides for depreciation over the estimated useful lives of the assets using accelerated methods. Estimated useful lives are as follows:

Computer software	3 years
Computer equipment	5 years
Office equipment	5 - 7 years
Leasehold improvements	15 years

The cost of maintenance and repairs is charged to expense as incurred, while renewals and betterments are capitalized. Upon sale or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Inventory

Inventory consists primarily of book titles that the Company has proprietary rights to market. Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of replacement cost or estimated net realizable value. If a book is taken out of print, superseded by a later version, or ceases to sell, it is considered obsolete and all related inventory amounts are written-off.

Accrued Vacation

Company employees accrue vacation monthly based upon the number of hours worked. The maximum amount of vacation that can be carried forward to the next calendar year is three weeks (120 hours). The accrued vacation balance at year-end is included in the accounts payable and accrued expenses balance.

Income Taxes

The Company has elected to be taxed as an S-Corporation for federal tax purposes. Accordingly, federal taxable income is passed through to each stockholder on a pro-rata basis and federal taxes are paid at the stockholder level. Therefore, the financial statements do not reflect a provision for federal income taxes.

The Company incurs state income taxes and the financial statements include a provision for the state tax effect of transactions reported in the financial statements. The provision consists of taxes currently due, and deferred taxes related primarily to differences between the basis of property and equipment for financial and income tax reporting.

Advertising Costs

The Company expenses advertising costs as they are incurred.

**OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS**

B. SUBORDINATED DEBT:

Subordinated debt consisted of the following at December 31:

	2003	2002	2001
	-----	-----	-----
Subordinated note payable to Roy E. Mayers, requiring quarterly interest payments beginning January 27, 1998, principal due October 27, 2002.			
Interest is fixed at 8%.	\$ 0	\$ 0	\$ 250,000
Subordinated note payable to Gordon Russell, requiring quarterly interest payments beginning January 27, 1998, principal due October 27, 2002.			
Interest is fixed at 8%.	0	0	50,000
Total subordinated debt	\$ 0	\$ 0	\$ 300,000
Less: current portion	0	0	300,000
	-----	-----	-----
Long term subordinated debt	\$ 0	\$ 0	\$ 0
	=====	=====	=====

Interest expense related to these notes was approximately \$0, \$13,000 and \$24,000 for the periods ended December 31, 2003, 2002 and 2001, respectively.

C. LINE OF CREDIT

The Company has a line of credit with a bank in the amount of \$1,000,000. Funds in the amount of \$400,000 have been drawn against the line as of December 31, 2003. The line is renewable annually and is payable upon demand if certain loan conditions are not met. Interest at the prime rate(4.00% at December 31) is added to the amount owed on the line on a monthly basis. The note is collateralized by a first position security interest in all assets of the company and is personally guaranteed by Barbara Russell and Roy E. Mayers.

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS

D. DESCRIPTION OF LEASING ARRANGEMENTS AND RELATED PARTY TRANSACTIONS:

The Company leases its building from Merrimack M&R Realty LLC (a related party). The Company leases this facility under a five-year non-cancelable operating lease expiring in October 2006. The lease contains an option to renew for one five year period for a negotiated rental amount and is subject to the same terms as the original lease period. The Company is required to pay, as a management fee, any common area maintenance fees pursuant to the lease agreement.

The following is a schedule of future minimum lease payments required under the above lease as of December 31, 2003:

Period Ending December 31, -----	Amount -----
2004	\$ 312,000
2005	312,000
2006	260,000

	\$ 884,000
	=====

Rental expense amounted to \$312,000, \$312,000 and \$170,564 for the periods ended December 31, 2003, 2002 and 2001, respectively.

The Company also has a five year operating lease agreement with Merrimack M&R Realty LLC (a related party) for furniture and equipment which is owned by Merrimack M&R Realty LLC. Options advanced funds to Merrimack M&R Realty LLC to purchase the furniture and equipment. The inter-company balance with Merrimack M&R Realty LLC represents the funds advanced by Options to purchase the furniture and equipment.

The following is a schedule of future minimum lease payments required under the

above lease as of December 31, 2003:

Period Ending December 31, -----	Amount -----
2004	\$ 84,148
2005	84,148
2006	70,123

	\$ 238,419
	=====

The reduction in the inter-company balance with Merrimack M&R Realty LLC for payments made for the periods ended December 31, 2003, 2002 and 2001 were \$84,148, \$84,148, and \$14,025 respectively.

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS

E. COMMON AND PREFERRED STOCK, STOCK OPTIONS AND PHANTOM STOCK PLAN

The authorized capital stock of the Company is 900,000 shares and 100,000 shares of Class A(Voting) and Class B(Nonvoting) no par Common Stock respectively. There are currently issued and outstanding, 90,000 shares Class A Common Stock and 10,000 shares Class B Common Stock. The issued and outstanding shares of Common Stock have been duly authorized and validly issued, are fully paid and nonassessable and were issued in compliance with all applicable state and federal laws concerning the issuance of securities. One of the shareholders, after he has been a shareholder for a minimum of six years, has the option of requiring the corporation and or the Non-Affected Shareholders to purchase all, but not less than all, of his Class A shares at any time. The purchase price will be determined by a valuation of the shares to be performed if the shareholder exercises his option. The option is exercisable by the shareholder tendering written notice of such exercise to the Corporation and to the Non-Affected Shareholders.

The Company created a Phantom Stock Plan in March of 2002 to benefit a limited number of key employees in the event of normal retirement or in the event that the company is sold to a third party. A Phantom Stock Plan is commonly established for key employees of a Subchapter S Corporation who do not or cannot have an ownership interest in an "S" Corporation. This type of plan allows key employees to share in the long-term growth of a closely held company without actually having an ownership interest in the company, due to Internal Revenue Code restrictions regarding ownership and classes of stock that may be outstanding. These "Key employees" are people who are employed by the company that are in a position to contribute materially to its continued growth and development and to its future financial success.

Awards under this plan shall be granted to Participants in the form of Performance Shares, which shall be credited to a Performance Account to be maintained for each Participant. Each Participant shall become vested in this plan upon the earlier to occur of (1)the completion of three (3) years of service for vesting following the close of the calendar year with respect to which the Performance Share in question pertains; or (2)a sale of the Company. The maximum amount of benefit that a Participant may receive is equal to approximately one percent of the company's value at the measurement date. As of December 2003 and 2002, there were no awards granted, so no accruals have been included in these financial statements.

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS

F. COST OF SALES:	2003	2002	2001
	-----	-----	-----
Inventory, beginning of year	\$ 937,963	\$ 853,368	\$ 812,418
Purchases	2,955,104	1,948,859	1,375,266
Freight	470,151	409,715	294,233
Author royalties	898,712	778,376	539,109
	-----	-----	-----
Cost of goods available for sale	5,261,930	3,990,318	3,021,026
Inventory, end of year	1,579,000	937,963	853,368
	-----	-----	-----
Cost of sales,			
not including product development	3,682,930	3,052,355	2,167,658
Product development (Note H)	2,877,333	1,988,534	1,381,540
	-----	-----	-----
Cost of sales	\$6,560,263	\$5,040,889	\$3,549,198
	=====	=====	=====

G. OPERATING EXPENSES:

Catalog expenses:	2003	2002	2001
	-----	-----	-----
Prepaid catalog expense	\$ 510,520	\$ 470,924	\$ 415,637
	-----	-----	-----
Total	\$ 510,520	\$ 470,924	\$ 415,637
	-----	-----	-----

Selling/marketing expenses:

Selling/marketing expenses:	2003	2002	2001
	-----	-----	-----
Wages	\$1,113,461	\$ 0	\$ 0
Payroll taxes	103,603	0	0
Advertising (Note A)	51,697	57,535	25,757
Brochures/promotional materials	791,832	862,589	587,582
Commissions	1,950,578	1,871,329	1,445,076
Copyrights/state listings	4,123	3,129	8,471
Correlation	11,080	12,740	11,789
Direct mailing-fax	0	1,287	2,616
Direct mailing-insertion/ mailing	68,255	81,401	62,262
Direct mailing-names bought	29,304	26,951	19,940
Direct mailing-postage	332,282	369,780	288,626
Direct mailing-printing	88,098	77,820	48,255
Exhibit expense	425,134	379,198	323,468
Marketing-general	107,570	109,024	31,850
Marketing-printing	48,519	44,729	3,123
Office supplies	30,307	19,748	10,835
Postage	9,051	5,373	3,693
Telephone	40,397	27,043	15,503
Sales consulting	26,075	30,200	35,532
Sales meeting	168,166	134,746	72,750
Sales travel and entertainment	207,338	152,650	92,275
	-----	-----	-----
Total	\$5,606,870	\$4,267,272	\$3,089,403
	-----	-----	-----

Occupancy expenses:

Occupancy expenses:	2003	2002	2001
	-----	-----	-----
Rent (Note E)	\$ 312,000	\$ 312,000	\$ 170,564
Electricity	0	0	5,274
Insurance-building	9,453	8,878	6,156
	-----	-----	-----
Total	\$ 321,453	\$ 320,878	\$ 181,994
	-----	-----	-----

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS

G. OPERATING EXPENSES (CONTINUED):	2003	2002	2001
	-----	-----	-----
General and administrative expenses:			
Wages	\$ 1,129,025	\$ 1,842,897	\$ 1,288,756
Payroll taxes	85,279	148,398	95,704
Advertising - employment	4,430	6,631	4,978
Bad debt (Note A)	(213)	1,318	520
Bank charges	10,369	9,039	5,551
Car lease	3,228	2,517	2,517
Donations	1,475	1,650	3,790
Dues and subscriptions	16,731	2,130	6,386
Equipment lease (Note D)	87,171	87,183	17,092
Insurance	233,914	170,237	121,920
401K match - company portion (Note K)	59,175	31,625	30,463
Maintenance expense	8,049	7,085	19,051
Management fee (Note D)	68,400	70,000	8,333
Moving expenses	0	2,292	12,283
Office supplies	70,814	70,603	48,729
Online expense	3,198	3,660	2,998
Postage	84,636	57,702	57,112
Professional fees	36,165	47,748	25,919
Real estate taxes	0	0	1,822
Telephone/fax	33,668	30,381	25,907
Training	4,814	4,359	5,269
Travel	29,462	21,528	15,871
Warehouse expense	71,021	73,118	35,177
Depreciation	35,383	33,971	24,775
Amortization	6,584	6,030	6,030
	-----	-----	-----
Total	\$ 2,082,778	\$ 2,732,102	\$ 1,866,953
	-----	-----	-----
Total operating expenses	\$ 8,521,621	\$ 7,791,176	\$ 5,553,987
	=====	=====	=====

H. PRODUCT DEVELOPMENT EXPENSES:	2003	2002	2001
	-----	-----	-----
Product development expenses:			
Product development expense	\$ 1,972,986	\$ 1,423,451	\$ 1,249,592
Office supplies	2,855	3,660	2,847
Postage	29,637	18,598	28,678
Telephone	1,939	1,639	2,941
Office rent	1,611	0	0
Outside design	38,543	75,152	32,258
Outside art	167	19,689	1,242
Outside proofreading	0	1,950	198
Production	26,531	20,163	1,542
Product revisions	735,793	132,396	27,163
Print plates	0	963	3,721
Travel	33,618	37,002	31,358
Website	33,653	253,871	0
	-----	-----	-----
Total	\$ 2,877,333	\$ 1,988,534	\$ 1,381,540
	-----	-----	-----

OPTIONS PUBLISHING, INC.
NOTES TO FINANCIAL STATEMENTS

I. OTHER ASSETS:

The other assets balance consists of the unamortized portion of financing costs at December 31, 2003. Financing costs are being amortized over a seven year period.

J. INCOME TAXES:

The provision for income taxes includes the following at December 31:

	2003	2002	2001_
	-----	-----	-----
Deferred state tax payable	\$ 8,577	\$ 5,403	\$ 4,700
	=====	=====	=====

K. EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution retirement plan covering substantially all full-time employees. The Company matches employees contributions to up to four percent of compensation. Expense related to these plans amounted to \$ 59,175, \$31,625, and \$30,463 in 2003, 2002, and 2001, respectively.

L. RELATED PARTY TRANSACTIONS

The Company made royalty payments to related parties, which amounted to \$303,526, \$203,934, and \$124,884 in 2003, 2002 and 2001 respectively.

Loss on disposal of discontinued operations	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----
Net Income (loss)	\$ (10,478,000)	\$ 741,000	\$ (821,000)	\$ 3,727,000	\$ (839,000)	\$ (7,670,000)
	=====	=====	=====	=====	=====	=====

Notes to pro forma consolidated statements of operations

- a. Reflects the consolidated statement of operations of the Company.
- b. Reflects the statement of operations of Buckle Down prior to its acquisition by the Company in April 2004. Certain balances have been reclassified to conform to the Company's presentation.
- c. Reflects the statement of operations of Options. Certain balances have been reclassified to conform to the Company's presentation.
- d. Reflects the adjustment for pre-publication costs originally expensed by Buckle Down to conform Buckle Down with the Company's accounting policies.
- e. Reflects the amortization of the independently appraised value for the intangible assets consisting of customer relationships with a 10 year estimated life, amortized on the straight line method, backlist with a 5 year estimated life, amortized on an accelerated method and a non-compete agreement with a 5 year life, amortized on the straight line method in order to present Buckle Down's results for the acquisition as if it occurred on January 1, 2003.
- f. Reflects the adjustment of depreciation on fixed assets to conform to the Company's depreciations methods and lives, and assets purchased from Merrimack M&R Realty, LLC.
- g. Reflects the interest charge related to borrowing the purchase price for the period January 1, 2003 to August 20, 2003 at which time the Company had adequate excess cash to consummate the acquisition as if it occurred on January 1, 2003.
- h. Reflects the removal of interest income related to the assumed use of excess cash.
- i. Reflects the adjustment for pre-publication costs originally expensed by Options to conform Option's with the Company's accounting policies.
- j. Reflects the removal of related party royalty payments associated with agreements cancelled in the acquisition which will not be replaced.
- k. Reflects reclasses to conform with the Company's presentation.
- l. Reflects the removal of related party leases between Merrimack M&R Realty, LLC and Options for the building, property and certain equipment used in the operations of Options. In the acquisition, these assets became the property of Options, therefore no further lease payments will be incurred.
- m. Reflects the removal of a related party management agreement with Merrimack M&R Realty, LLC and Options that was cancelled in the acquisition, and after the acquisition no similar arrangement will exist.

n. Reflects management's preliminary estimate of amortization for the intangible assets consisting of customer relationships with a 10 year estimated life, backlist with a 5 year estimated life and a non-compete agreement with a 2 year life, all of which are amortized on the straight line method in order to present Option's results for the acquisition as if it occurred on January 1, 2003.

o. Reflects the interest charge related to borrowing the purchase price.

p. Reflects the elimination of income tax expense that would not have been incurred as a result of the offset of options taxable income against the taxable losses of the Company.

Hights Cross Communications, Inc.
Pro Forma Consolidated Balance Sheets
As of September 30, 2004

	Consolidated Hights Cross Communications, Inc.	Options Publishing, Inc.	Pro Forma Adjustments	Consolidated Pro-forma Hights Cross Communications, Inc.
	(a)	(b)		
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 57,897,000	\$ 723,000	\$ (52,848,000) (c)	\$ 5,772,000
Accounts receivable, net	24,743,000	2,086,000	--	26,829,000
Inventory, net	23,214,000	1,772,000	--	24,986,000
Direct response advertising costs - current portion, net	3,747,000	--	--	3,747,000
Royalty advances	5,317,000	--	--	5,317,000
Prepaid expenses and other current assets	2,701,000	315,000	--	3,016,000
	-----	-----	-----	-----
Total current assets	117,619,000	4,896,000	(52,848,000)	69,667,000
Pre-publication costs, net	30,442,000	--	--	30,442,000
Direct response advertising costs, net	6,905,000	--	--	6,905,000
Property and equipment, net	7,891,000	102,000	1,800,000 (d)	9,793,000
Goodwill	136,579,000	--	28,481,000 (e)	165,060,000
Intangible assets, net	11,941,000	--	19,700,000 (f)	31,641,000
Deferred financing costs, net	15,288,000	--	--	15,288,000
Other assets	3,165,000	200,000	(200,000) (g)	3,165,000
	-----	-----	-----	-----
Total assets	\$ 329,830,000	\$ 5,198,000	\$ (3,067,000)	\$ 331,961,000
	=====	=====	=====	=====
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 19,122,000	\$ 2,131,000	\$ --	\$ 21,253,000
Accrued interest	2,955,000	--	--	2,955,000
Deferred subscription revenue	12,523,000	--	--	12,523,000
Current portion of long term debt	1,000,000	--	--	1,000,000
	-----	-----	-----	-----
Total current liabilities	35,600,000	2,131,000	--	37,731,000
Long term liabilities:				
Senior secured term loan	98,000,000	--	--	98,000,000
11 3/4% senior notes	140,000,000	--	--	140,000,000
12 1/2% senior discount notes	79,800,000	--	--	79,800,000
Series B Senior preferred stock	104,304,000	--	--	104,304,000
Other long term Liabilities	4,793,000	--	--	4,793,000
	-----	-----	-----	-----
Total long term liabilities:	426,897,000	--	--	426,897,000
Redeemable preferred stock:				
Series A preferred stock	34,961,000	--	--	34,961,000
Series C preferred stock	1,196,000	--	--	1,196,000
	-----	-----	-----	-----
Total redeemable preferred stock	36,157,000	--	--	36,157,000
Stockholders' equity (deficit):				
Common stock	20,000	--	--	20,000
Accumulated other comprehensive income	317,000	--	--	317,000
Accumulated deficit	(169,161,000)	3,067,000	(3,067,000)	(169,161,000)
	-----	-----	-----	-----
Total stockholders' equity (deficit)	(168,824,000)	3,067,000	(3,067,000)	(168,824,000)
	-----	-----	-----	-----
Total liabilities, redeemable preferred stock and stockholders' equity (deficit)	\$ 329,830,000	\$ 5,198,000	\$ (3,067,000)	\$ 331,961,000
	=====	=====	=====	=====

Notes to pro forma consolidated balance sheets as of September 30, 2004.

- a. Reflects the consolidated balance sheet of the Company.
- b. Reflects the balance sheet of Options. Certain balances have been reclassified to conform to the Company's presentation.
- c. Reflects the \$51,800,000 cash consideration provided in connection with the asset purchase agreements and includes \$1,048,000 of costs anticipated in connection with the acquisition.
- d. Reflects the assets purchased from Merrimack M&R Realty, LLC.
- e. Reflects the preliminary net purchase price allocation to goodwill.
- f. Reflects the preliminary net purchase price allocation of definite lived intangible assets consisting of a non-compete agreement of \$500,000, the backlist of \$7,200,000 and customer list of \$12,000,000.
- g. Reflects the elimination of a related party receivable not acquired.

EXHIBIT 99.4

Haight Cross Communications, Inc.

Reconciliation of Pro Forma Net Loss to Pro Forma EBITDA and Pro Forma Adjusted EBITDA for the year ended December 31, 2003, the Nine Months Ended September 30, 2003 and 2004 and the Last Twelve Months Ended September 30, 2004 (unaudited).

The following table reconciles pro forma net income to pro forma EBITDA and pro forma adjusted EBITDA. "EBITDA" is defined as income before interest, taxes, depreciation, amortization and discontinued operations. EBITDA is not a measurement of operating performance calculated in accordance with generally accepted accounting principles and should not be considered a substitute for operating income, net income (loss), cash flows, consolidated statements of operations or consolidated balance sheets prepared in accordance with GAAP. In addition, because EBITDA is not defined consistently by all companies, this presentation of EBITDA may not be comparable to similarly titled measures of other companies. However, we believe EBITDA is relevant and useful to investors because (a) it provides an alternate measurement to operating income that takes into account certain relevant adjustments that are specific to publishing companies, and (b) it is used by our management to evaluate our ability to service our debt and, along with other data, as an internal measure for setting budgets and awarding incentive compensation. "Adjusted EBITDA" is defined as EBITDA, adjusted to remove certain non-recurring charges.

	Year ended December 31, 2003	Nine Months Ended September 30, ----- 2003 2004		Twelve Months Ended September 30, 2004
Pro forma net loss.....	\$(5,294,000)	\$(3,544,000)	\$(7,670,000)	\$(9,420,000)
Net loss (income) from discontinued operations.....	716,000	973,000	--	(257,000)
Interest expense and other.....	41,806,000	33,846,000	38,432,000	46,392,000
Income from operations.....	37,228,000	31,275,000	30,762,000	36,715,000
Amortization of pre-publication costs.....	11,477,000	8,008,000	9,842,000	13,311,000
Depreciation and amortization.....	4,479,000	3,345,000	4,238,000	5,372,000
PRO FORMA EBITDA.....	\$53,184,000	\$42,628,000	\$44,842,000	\$55,398,000
Restructuring and related charges.....	3,139,000	2,895,000	1,335,000	1,579,000
Non-cash inventory obsolescence charge.....	--	--	2,095,000	2,095,000
Non-recurring management incentive plan.....	(167,000)	--	--	(167,000)
PRO FORMA ADJUSTED EBITDA.....	\$56,156,000	\$45,523,000	\$48,272,000	\$58,905,000

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