THE BERRETT-KOEHLER GROUP, INC.

AND ITS WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

WITH REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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DECEMBER 31, 2008 AND 2007

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May 6, 2009

To the Board of Directors
and Stockholders of
The Berrett-Koehler Group, Inc.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have audited the accompanying consolidated balance sheets of The Berrett-Koehler Group, Inc. and its wholly-owned subsidiary (collectively, the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits of these statements in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Berret-Koehler Group and its wholly-owned subsidiary as of December 31, 2008 and 2007, and the results of their operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Odenberg Ullakko Muranishi & Co LLP

THE BERRETT-KOEHLER GROUP, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
A S S E T S		
Current assets:		
Cash and cash equivalents	$ 8,117	$ 35,010
Accounts receivable, less allowance for doubtful accounts of $30,000 and $30,000, respectively	898,286	1,056,035
Inventories	2,218,777	2,116,009
Prepublication costs of producing inventories, current	440,747	378,097
Deferred tax asset	29,600	57,100
Other current assets	160,859	136,669
Total current assets	3,756,386	3,778,920
Non-current assets:		
Furniture, equipment and leasehold improvements, net	53,049	52,254
Prepublication costs of producing inventories, net	612,671	528,665
Deposits and other assets	16,482	16,482
Loan fees, net	1,199	4,797
Total non-current assets	683,401	602,198
Total assets	$ 4,439,787	$ 4,381,118
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 57,292	$ 137,500
Short-term borrowings from related parties	-	143,713
Line of credit	1,081,778	476,839
Accounts payable	117,630	205,148
Accounts payable to related parties	258,205	312,043
Accrued liabilities	269,756	343,756
Royalties payable	959,611	919,328
Preferred stock dividends payable	10,529	10,027
Total current liabilities	2,754,801	2,548,354
Long-term liabilities:		
Long-term debt, net	-	57,292
Royalties payable reserve	266,883	392,002
Deferred rent	14,324	23,370
Total long-term liabilities	281,207	472,664
Total liabilities	3,036,008	3,021,018
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Convertible preferred stock, Series A, $0.001 par value, 50,000 shares authorized, 26,739 shares issued and outstanding; liquidation value of $372,374 and $351,818, respectively	229,900	229,900
Convertible preferred stock, Series A, dividends	(105,015)	(84,459)
Common stock, $0.001 par value, 10 million shares authorized, 886,384 and 886,384 shares issued and outstanding	2,027,923	2,027,923
Less: Treasury stock (7,839 and 6,678 shares of common stock, at cost)	(65,511)	(55,061)
Accumulated deficit	(683,518)	(758,203)
Total stockholders' equity	1,403,779	1,360,100
Total liabilities and stockholders' equity	$ 4,439,787	$ 4,381,118

See accompanying notes to consolidated financial statements.

THE BERRETT-KOEHLER GROUP, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,	
	2008	2007
Revenues:		
Net sales	$ 5,723,662	$ 6,624,227
Subsidiary rights	768,616	791,627
Other revenues	204,078	144,702
	6,696,356	7,560,556
Cost of sales:		
Direct cost of goods sold	1,491,685	1,776,027
Amortization of prepublication costs of producing inventories	459,356	394,567
Royalties	1,085,949	1,188,983
Inventory write-off and other cost of sales	106,711	120,673
	3,143,701	3,480,250
Gross profit	3,552,655	4,080,306
Operating expenses:		
Marketing	1,316,707	1,210,298
Distribution	614,329	736,308
Editorial	194,667	89,618
Production	21,036	21,335
Finance and operations	1,246,832	1,258,549
	3,393,571	3,316,108
Earnings before interest, taxes, depreciation and amortization (EBITDA)	159,084	764,198
Other operating expenses:		
Depreciation and amortization	33,543	33,502
Operating income	125,541	730,696
Other income (expense):		
Interest expense	(67,312)	(82,290)
Other income (expense), net	58	191
Income before provision (benefit) for income taxes	58,287	648,597
Provision (benefit) for income taxes	(16,398)	234,690
Net income	$ 74,685	$ 413,907

See accompanying notes to consolidated financial statements.

THE BERRETT-KOEHLER GROUP, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Preferred Stock - Series A			Treasury Stock		Accumulated	
	Shares	Amount	Shares	Amount	Dividends	Shares	Amount	Deficit	Total
Balance at December 31, 2006, as previously reported	888,450	$ 2,026,423	26,739	$ 229,900	$ (64,404)	(4,352)	$ (36,734)	$ (1,172,110)	$ 983,075
Correction for shares issued to ESOP in prior years (see Note 8)	(2,066)	-	-	-	-	-	-	-	-
Corrected balance at December 31, 2006	886,384	2,026,423	26,739	229,900	(64,404)	(4,352)	(36,734)	(1,172,110)	983,075
Preferred stock dividends (Note 8)	-	-	-	-	(20,055)	-	-	-	(20,055)
Stock offering expenses/refund-Direct Public Offering	-	1,500	-	-	-	-	-	-	1,500
Shares repurchased from employees and terminated employees	-	-	-	-	-	(2,326)	(18,327)	-	(18,327)
Net income	-	-	-	-	-	-	-	413,907	413,907
Balance at December 31, 2007	886,384	2,027,923	26,739	229,900	(84,459)	(6,678)	(55,061)	(758,203)	1,360,100
Preferred stock dividends (Note 8)	-	-	-	-	(20,556)	-	-	-	(20,556)
Shares repurchased from employees and terminated employees	-	-	-	-	-	(1,161)	(10,450)	-	(10,450)
Net income	-	-	-	-	-	-	-	74,685	74,685
Balance at December 31, 2008	886,384	$ 2,027,923	26,739	$ 229,900	$ (105,015)	(7,839)	$ (65,511)	$ (683,518)	$ 1,403,779

See accompanying notes to consolidated financial statements.

THE BERRETT-KOEHLER GROUP, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2008	2007
Operating activities:		
Net income	$ 74,685	$ 413,907
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	428,109	427,136
Inventory lower cost or market adjustment	108,808	134,486
Deferred taxes	27,500	106,500
Deferred rent	(9,046)	(5,748)
Changes in other operating items:		
Accounts receivable	157,749	(369,250)
Inventories	(211,576)	(113,156)
Prepublication costs of producing inventories, net	(541,223)	(491,666)
Other current assets	(24,190)	5,720
Accounts payable and other liabilities	(215,356)	111,889
Royalties payable	(84,836)	89,453
Cash provided by (used for) operating activities	(289,376)	309,271
Investing activities:		
Capital expenditures for furniture and equipment	(30,739)	(36,753)
Cash used for investing activities	(30,739)	(36,753)
Financing activities:		
Proceeds from (repayment of) short-term borrowings, net	604,939	(218,284)
Proceeds from notes payable	-	448,188
Repayments of notes payable	(281,213)	(441,975)
Stock offering expense refund	-	1,500
Purchase of treasury stock	(10,450)	(18,327)
Dividends to preferred stockholders	(20,054)	(20,055)
Cash provided by (used for) financing activities	293,222	(248,953)
Change in cash and cash equivalents	(26,893)	23,565
Cash and cash equivalents at beginning of year	35,010	11,445
Cash and cash equivalents at end of year	$ 8,117	$ 35,010
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 65,539	$ 86,185
Cash paid for taxes	$ 63,650	$ 52,850

See accompanying notes to consolidated financial statements.

THE BERRETT-KOEHLER GROUP, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Organization, operations and summary of significant accounting policies:

Organization

The Berrett-Koehler Group, Inc. (BKG) is a holding company whose wholly owned subsidiary is Berrett-Koehler Publishers, Inc. (BKP) (collectively "the Company"). The Company publishes resource materials (primarily hardcover books, paperback books, digital books, and other digital resources) in a range of areas, including business, economics, leadership, management, organizational change, human resource development, work and careers, personal development, self-help, current affairs, societal change, and sustainable development. The Company sells its products to customers primarily through domestic and international distributors, bookstores, internet sales, conference and meeting displays, promotions by authors, catalog marketers, direct corporate sales, direct mail and email marketing to customers, other online and digital marketing, subsidiary rights sales, and other similar means.

In March 2007, the Company entered into a distribution service agreement and a sales representation agreement with Ingram Publisher Service, Inc. (IPS), replacing services formerly provided by Publisher Group West (PGW) as the Company's major distributor to U.S. bookstores, wholesalers and other trade accounts. On December 29, 2006, the parent company of Publishers Group West filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code. During the years ended December 31, 2008 and 2007, the Company had sales to IPS that generated 53% and 52%, respectively, of its total revenue.

As discussed in Note 6, at December 31, 2008 the Company had a line of credit balance outstanding of $1,081,778, which is due on demand from the lender. If the lender were to call the loan, the Company would need to seek alternative financing or raise the necessary capital in order to settle its obligations. There is no assurance that the Company would be able to raise additional funds on acceptable terms, if at all, should the credit line not be renewed.

A summary of significant accounting policies follows:

Principles of consolidation

The consolidated financial statements include the accounts of BKG and its wholly-owned subsidiary. All material intercompany transactions and balances have been eliminated in consolidation.

Revenue recognition

Sales are recorded when merchandise is shipped. Allowances for reserves are recorded based on prior experience. Nonrefundable advances received for subsidiary rights are generally recorded as revenue at the time the contract is signed, while ongoing rights revenue is generally recorded when the payments are received.

Inventories

Inventories are stated at the lower of cost (on the average cost basis) or market value and include finished books and work-in-process.

Prepublication costs of producing inventories

Prepublication costs of producing inventories include certain expenditures for the development of print products, including editorial development of publications and design and production management. The prepublication costs are assigned to each individual publication by effort expended, based on management's assessment. These costs are incurred and capitalized prior to the commencement of printing and are then amortized on the straight-line method over a four year period commencing with publication. Revenues for each book are forecasted to determine whether all remaining costs will be recovered, with unrecoverable costs being written off. Amortization expense of $459,356 and $394,567 has been included in cost of sales in the accompanying consolidated statement of income for the years ended December 31, 2008 and 2007, respectively.

Depreciation and amortization

Furniture, equipment and leasehold improvements are carried at cost. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any resulting gains or losses are included in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the term of the lease. Loan origination fees totaling $46,391 are amortized using the straight-line method over the term of the loan. Accumulated amortization of the loan origination fees at December 31, 2008 and 2007 is $45,192 and $41,594, respectively.

Deferred rent

The Company's office lease contains predetermined fixed increases of the minimum rental rate over the term of the lease. The Company recognizes the related rental expense on a straight-line basis over the life of the lease and records the difference between rent expense and the amount paid as deferred rent.

Shipping and handling costs

Shipping and handling costs of $136,788 and $153,621 have been allocated to marketing, editorial, production, and finance and operation expense for 2008 and 2007, respectively.

Advertising and promotion costs

The Company expenses advertising and promotion costs as incurred.

Statement of cash flows

For purposes of the statement of cash flows, the Company considers all short-term interest-bearing investments with a maturity date at the time of purchase of three months or less to be cash equivalents.

Concentration of credit risk

The Company performs ongoing credit evaluations of its distributors and customers and generally does not require collateral. BKG maintains reserves for potential credit losses and such losses have been within management's expectations. The Company had accounts receivable due from one customer (IPS) that accounted for 49% and 54% of total accounts receivable at December 31, 2008 and 2007, respectively.

The Company places its cash and temporary cash investments with high credit quality institutions. At times such investments may be in excess of FDIC insurance limits.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates relate to useful lives of equipment, inventory write-downs, publishing contracts and prepublication costs; fair value of financial instruments; and allowance for doubtful accounts. Actual results when ultimately realized could differ from those estimates.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, royalties payable and notes payable are reasonable estimates of the fair value of these financial instruments.

Income taxes

BKG and its subsidiary file a consolidated federal income tax return. The provisions for federal and state income taxes are based on the income of BKG and its subsidiary. The Company provides for deferred taxes for differences between the carrying amounts of assets and liabilities for financial reporting and tax purposes, using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

EBITDA

The Company defines EBITDA as earnings before interest, taxes, depreciation and amortization and other income and expense. EBITDA is not a measurement defined by generally accepted accounting principles ("GAAP") and accordingly should not be considered in isolation, or as a substitute for analysis of the Company's total results as reported under GAAP.

EBITDA is presented in the accompanying financial statements, however, because it is a measure commonly used by investors and analysts to analyze and compare companies on the basis of operating performance.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation. The reclassifications had no effect on net income.

NOTE 2 - Accounts receivable

Accounts receivable are summarized as follows:

	December 31, 2008	December 31, 2007
Gross accounts receivable	$ 928,286	$ 1,086,035
Less - allowance for doubtful accounts	30,000	30,000
	$ 898,286	$ 1,056,035

Accounts receivable are pledged as security for certain indebtedness (see Notes 6 and 7).

NOTE 3 - Inventories:

Inventories are summarized as follows:

	December 31, 2008	December 31, 2007
Finished books	$ 2,075,358	$ 2,009,173
Work-in-process	143,419	106,836
	$ 2,218,777	$ 2,116,009

Inventories are pledged as security for certain indebtedness (see Notes 6 and 7).

NOTE 4 - Furniture, equipment and leasehold improvements:

Furniture, equipment and leasehold improvements are summarized as follows:

	December 31, 2008	December 31, 2007
Office furniture and equipment	$ 69,121	$ 69,121
Computer equipment	256,265	241,386
Computer software	49,231	33,371
Leasehold improvements	14,941	14,941
	389,558	358,819
Less - accumulated depreciation and amortization	336,509	306,565
	$ 53,049	$ 52,254

Depreciation expense was $29,945 and $29,904 for the years ended December 31, 2008 and 2007, respectively. Certain of the foregoing assets are pledged as security for certain indebtedness (see Notes 6 and 7).

NOTE 5 - Prepublication costs of producing inventories:

Prepublication costs of producing inventories are summarized as follows:

	December 31, 2008	December 31, 2007
Editorial costs	$ 1,308,197	$ 1,085,466
Production costs	657,827	595,846
	1,966,744	1,681,312
Less – accumulated amortization	913,326	774,550
	1,053,418	906,762
Less – current portion	440,747	378,097
	$ 612,671	$ 528,665

NOTE 6 - Line of credit and short-term borrowing arrangements:

On July 21, 2008, the Company entered into a Fourth Modification to Loan and Security Agreement with its lender, which modified certain terms of its loan arrangements. At December 31, 2008, the Company has a line of credit of up to a maximum of $1.5 million with a bank, based on certain calculations as defined by the agreement, which increases to $2 million at March 31, 2009. The credit line bears an annual interest rate of 1.5% over the bank's base rate (1.0% over the bank's base rate prior to the modification). The interest rate was 4.75% and 8.25% at December 31, 2008 and 2007, respectively. The credit line is secured by all of the Company's assets, including accounts receivable and inventories, and is due on demand from the lender.

The borrowing arrangement contains certain restrictive covenants which require, among other things; tangible net worth of not less than $800,000 at December 31, 2008, and, as of the end of each fiscal year thereafter, the amount of tangible net worth that was required to be maintained as of the end of the immediately preceding fiscal year plus 50% of the positive after tax net income, if any, for such preceding fiscal year, minus permitted distributions (as defined in the agreement); a current ratio of not less than 1.1:1.0; a minimum net income after taxes, tested on a quarterly basis, and determined on a cumulative basis for the year end, of: negative $50,000 for the quarter ending March 31 of each year; negative $100,000 for the quarter ending June 30 of each year; zero dollars for the quarter ending September 30 of each year; and $120,000 for the quarter ending December 31 of each year. Additionally, the Company is required to deliver audited financial statements to the bank within 165 days after year-end. The Company was out of compliance related to achieving minimum net income of $120,000 for the quarter ending December 31, 2008; however, the Company has received a waiver from the lender related to this covenant for the quarter then ended.

Borrowings under this line of credit were $1,081,778 and $476,839 at December 31, 2008 and 2007, respectively.

On April 1, 2007, the Company entered into a note payable to a printing company (shareholder) in the amount of $198,188, with an annual interest rate of 8.5%, payable in monthly principal and interest installments of $13,974 to July 2008, secured by certain assets of the Company and subordinated to the Company's line of credit and long-term borrowings. The outstanding balance of the note was $81,801 at December 31, 2007, and was paid off during 2008.

On April 1, 2007, the Company entered into another note payable to another printing company (shareholder) in the amount of $150,000, with an annual interest rate of 8.5%, payable in monthly principal and interest installments of $10,576 to July 2008, secured by certain assets of the Company and subordinated to the Company's line of credit and long-term borrowings. The outstanding balance of the note was $61,912 at December 31, 2007, and was paid off during 2008.

NOTE 7 - Long-term debt:

The Company has a note payable to a bank, with an annual interest rate at prime plus 1.25% (4.5% and 8.5% at December 31, 2008 and 2007, respectively), payable in monthly installments of $11,458 plus interest until April 2009, secured by certain assets of the Company and personally guaranteed by the Company's majority stockholder. The outstanding balance of the note was $57,292 and $194,792 at December 31, 2008 and 2007, respectively.

NOTE 8 - Capital stock:

Direct public offering

On August 25, 2004, the Board of Directors of the Company voted to authorize the Company to raise up to $1,000,000 by means of a Direct Public Offering ("DPO") of common stock at a price of $8.00 per share, with a total offering of 125,000 shares of common stock. In 2004, the Company had issued 425 shares of common stock under the DPO.

During 2005, 70,909 shares of common stock were issued under the DPO, of which 62,201 of the shares were issued at $8.00 per share, and 8,708 shares were issued at $9.00 per share.

During 2006, 3,560 shares of common stock were issued under the DPO, of which 260 shares were issued at $9.00 per share, and 3,300 shares were issued at $10.00 per share. As of December 31, 2006, the Company had issued a total of 74,694 shares of common stock under the DPO. The DPO was closed for all states except California on November 30, 2005, and was closed for California on July 31, 2006.

Preferred stock

On May 2, 2003, the Company amended and restated its Articles of Incorporation which authorized the Company to issue two classes of stock designated, respectively, "common stock" and "preferred stock", with total authorized shares of 10,000,000 and 50,000, respectively. All of the preferred stock is designated Series A preferred stock.

Each share of preferred stock is entitled to receive on July 1 of each year, in preference to holders of any other stock of the Company, cumulative cash dividends at the rate of 7.5% per annum of the original issue price, as defined, subject to adjustments for stock dividends, stock splits, and other similar transactions. Commencing on July 1, 2008, dividends shall be payable at a rate of the prime rate plus 3.25%, with a minimum rate of 7.5% and a maximum rate of 15%. The preferred stock is convertible, at the option of the holder, into common stock, and each preferred stockholder shall be entitled to one vote for each share of common stock into which such preferred stock is convertible.

Upon liquidation of the Company, the preferred stockholders are entitled to receive an amount equal to the original issuance price per share plus all accrued and unpaid dividends on such shares. The preferred stock has preference as to dividends and liquidation value upon dissolution or winding up of the Company. Liquidation value (including dividends payable) of the preferred stock at December 31, 2008 and 2007 is $372,374 and $351,818, respectively.

Common stock

Common shares of stock issued and outstanding were 886,384 at December 31, 2008 and 2007. The number of common shares issued and outstanding previously reported at December 31, 2006 was 888,450. The Company made a correction for 2,066 common shares previously reported as being issued to the employee stock ownership plan (see Note 10).

Treasury stock

During 2008, the Company repurchased 1,161 shares of common stock from three terminated employees at a cost of $9.00 per share. During 2007, the Company repurchased 2,326 shares of common stock from two employees and two terminated employees at a cost of $7.88 per share.

NOTE 9 - 401(k) profit-sharing plan:

The Company has a 401(k) profit-sharing plan that is available to eligible employees. Employer contributions to the plan are at the discretion of the Board of Directors. There were no contributions for 2008 and 2007.

NOTE 10 - Employee stock ownership plan:

The Company established an employee stock ownership plan (ESOP) effective January 1, 1996. The ESOP was designed to qualify for preferred tax treatment under Section 401 (a) of the Internal Revenue Code and to enable participating employees to share in the growth and prosperity of the Company. Under the ESOP, an Employee Stock Ownership Trust holds the investments of the Plan. Employer contributions to the ESOP are at the discretion of the Board of Directors. The Company recorded $30,000 and $99,997 in contribution expenses for 2008 and 2007, respectively.

NOTE 11 - Income taxes:

Deferred income taxes are provided for temporary differences between the financial reporting and tax bases of the Company’s assets and liabilities. A deferred tax asset is recognized for temporary differences that may result in deductible amounts in future years and for carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Deferred tax assets and liabilities are comprised of the following:

	December 31,	
	2008	2007
Current deferred tax assets:		
Accrued liabilities	$ 27,600	$ 45,300
Allowance for doubtful accounts	12,900	12,000
	40,500	57,300
Non-current deferred tax assets (liabilities):		
Furniture, equipment and leasehold improvements	(16,200)	(11,500)
Other	5,300	11,300
	(10,900)	(200)
Valuation allowance for deferred taxes	-	-
Net deferred tax asset	$ 29,600	$ 57,100

The Company has foreign tax credits available of approximately $126,000 which will expire over a period from 2011 to 2018. The Company has determined that there is no need for a valuation allowance at December 31, 2008 or 2007.

The provision (benefit) for income taxes for the years ended December 31, 2008 and 2007 is as follows:

	Year ended December 31,	
	2008	2007
Current	$ (43,898)	$ 128,190
Deferred	27,500	106,500
	(16,398)	234,690
Decrease in valuation allowance	-	-
Net income tax provision (benefit)	$ (16,398)	$ 234,690

NOTE 12 - Commitments and contingencies:

In July 2003, the Company's office facility lease was amended to extend the lease term to July 31, 2011. Under the terms of the amended lease, rent is adjusted annually for increases in building operating costs. Total rent expense under the operating lease was $182,918 and $189,065 for the years ended December 31, 2008 and 2007, respectively. Minimum future rental payments for years subsequent to December 31, 2008 are as follows: $180,928 – 2009; $180,928 – 2010; and $105,541 – 2011.

In connection with the filing bankruptcy by PGW, the Company received a letter dated May 2, 2008 from Advanced Marketing Systems/Publishers Group West ("AMS/PGW"), PGW's bankruptcy agent, demanding payment of $221,523 from the Company for the value of book inventory returned from AMS/PGW customers. The Company disputes the amount of this claim, and believes the amount owed to AMS/PGW is $45,990, which has been recorded in accrued liabilities on the accompanying consolidated balance sheet as of December 31, 2008 and 2007. The matter is ongoing, and the final outcome of the claim may result in additional expense to the Company of up to approximately $175,000 in the year of resolution.

NOTE 13 – Subsequent event:

On March 5, 2009, the Company entered into a Fifth Modification to Loan and Security Agreement with its lender (Note 6) whereby the lender, so long as no events of default have occurred under the loan, will make available a term loan of $150,000, the proceeds which shall be used solely for the purpose of supporting royalty payments. The note incurs interest at the lender's base rate plus 1.75% per annum, and is due March 1, 2010.

On April 1, 2009, the Company entered into notes payable with two printing companies (and shareholders). Each note payable is in the amount of $200,000 ($400,000 total), with annual interest rates of 7%, payable in monthly principal and interest installments of $8,955, secured by certain assets of the Company and subordinated to the Company's line of credit and term loan with the Company's primary lender. The notes payable are due in full on April 1, 2011.