

Biblica US, Inc. and Subsidiaries

Accountants' Reports and Consolidated Financial Statements

February 28, 2011 and 2010

Biblica US, Inc. and Subsidiaries
February 28, 2011 and 2010

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Independent Accountants' Report

Board of Directors
Biblica US, Inc. and Subsidiaries
Colorado Springs, Colorado

We have audited the accompanying consolidated statements of financial position of Biblica US, Inc. (a wholly-owned subsidiary of Biblica, Inc.) and Subsidiaries (the Organization) as of February 28, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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. 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 Biblica US, Inc. and Subsidiaries as of February 28, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

\s\ **BKD, LLP**

June 17, 2011

Biblica US, Inc. and Subsidiaries
Consolidated Statements of Financial Position
February 28, 2011 and 2010
(in thousands)

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 5,290	\$ 4,532
Accounts receivables - net	7,537	9,004
Royalties, pledges and other receivables	2,212	2,746
Inventory	9,555	9,670
Prepaid expenses and other assets	<u>330</u>	<u>541</u>
Total current assets	<u>24,924</u>	<u>26,493</u>
Property and Equipment at Cost, Net of Accumulated Depreciation	<u>9,823</u>	<u>10,155</u>
Other Assets		
Real estate investment	1,300	1,325
Notes receivable from related parties	44	114
Other assets	<u>777</u>	<u>313</u>
Total other assets	<u>2,121</u>	<u>1,752</u>
Total assets	<u><u>\$ 36,868</u></u>	<u><u>\$ 38,400</u></u>

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Outstanding checks in excess of bank balance	\$ 265	\$ 388
Line of credit	2,643	3,250
Accounts payable and accrued liabilities	9,838	10,192
Current maturities of long-term and subordinated debt and capital lease obligations	834	808
Total current liabilities	<u>13,580</u>	<u>14,638</u>
Noncurrent Liabilities		
Royalty advances	1,026	1,252
Custodial liability	257	119
Long-term debt and capital lease obligations, net of current portion	9,604	10,527
Subordinated debt, net of current portion	<u>2,750</u>	<u>2,750</u>
Total noncurrent liabilities	<u>13,637</u>	<u>14,648</u>
Total liabilities	<u>27,217</u>	<u>29,286</u>
Net Assets		
Unrestricted	8,397	7,643
Temporarily restricted	<u>1,254</u>	<u>1,471</u>
Total net assets	<u>9,651</u>	<u>9,114</u>
Total liabilities and net assets	<u>\$ 36,868</u>	<u>\$ 38,400</u>

Biblica US, Inc. and Subsidiaries
Consolidated Statement of Activities
Year Ended February 28, 2011
(in thousands)

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Bible and biblical resource sales	\$ 51,908	\$ -	\$ 51,908
Royalty income	7,317	-	7,317
Contributions	1,198	2,224	3,422
Investment and other income	868	-	868
Net assets released from restrictions	2,441	(2,441)	-
	<u>63,732</u>	<u>(217)</u>	<u>63,515</u>
Expenses			
Program services			
Translation	1,036	-	1,036
Publishing	4,682	-	4,682
Bible engagement	12,898	-	12,898
Distribution	37,936	-	37,936
	<u>56,552</u>	<u>-</u>	<u>56,552</u>
Supporting services			
General and administrative	5,148	-	5,148
Fund raising	1,278	-	1,278
	<u>62,978</u>	<u>-</u>	<u>62,978</u>
Change in Net Assets	754	(217)	537
Net Assets, Beginning of Year	<u>7,643</u>	<u>1,471</u>	<u>9,114</u>
Net Assets, End of Year	<u>\$ 8,397</u>	<u>\$ 1,254</u>	<u>\$ 9,651</u>

Biblica US, Inc. and Subsidiaries
Consolidated Statement of Activities
Year Ended February 28, 2010
(in thousands)

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Bible and biblical resource sales	\$ 55,484	\$ -	\$ 55,484
Royalty income	6,687	-	6,687
Contributions	1,036	3,651	4,687
Investment and other income	2,069	-	2,069
Net assets released from restrictions	3,938	(3,938)	-
	<u>69,214</u>	<u>(287)</u>	<u>68,927</u>
Expenses			
Program services			
Translation	840	-	840
Publishing	4,081	-	4,081
Bible engagement	14,184	-	14,184
Distribution	42,320	-	42,320
	<u>61,425</u>	<u>-</u>	<u>61,425</u>
Supporting services			
General and administrative	5,466	-	5,466
Fund raising	1,514	-	1,514
	<u>68,405</u>	<u>-</u>	<u>68,405</u>
Change in Net Assets	809	(287)	522
Net Assets, Beginning of Year	<u>6,834</u>	<u>1,758</u>	<u>8,592</u>
Net Assets, End of Year	<u>\$ 7,643</u>	<u>\$ 1,471</u>	<u>\$ 9,114</u>

Biblica US, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended February 28, 2011 and 2010
(in thousands)

	2011	2010
Operating Activities		
Change in net assets	\$ 537	\$ 522
Items not requiring (providing) operating activities cash flows		
Depreciation	507	482
Amortization	52	125
Loss (gain) on disposition of assets	(4)	1
Loss on impairment of software	-	596
Unrealized loss (gain) on investments	25	(1,071)
Donated asset	-	11
Changes in		
Accounts receivable	1,467	1,329
Royalties, pledges and other receivables	451	(1,533)
Inventory	115	2,308
Other assets and liabilities	(167)	(108)
Accounts payable, accrued expenses and royalty advances	(580)	(404)
Net cash provided by operating activities	2,403	2,258
Investing Activities		
Purchases of property and equipment	(175)	(496)
Proceeds from sale of property and equipment	4	3
Advances made on notes receivable	-	(10)
Principal payments received on notes receivable	70	147
Net cash used in investing activities	(101)	(356)
Financing Activities		
Net repayments under line-of-credit agreement	(607)	(317)
Proceeds from advances on debt	-	1,000
Change in outstanding checks in excess of bank balance	(123)	(1,185)
Principal payments on debt	(814)	(961)
Net cash used in financing activities	(1,544)	(1,463)
Increase in Cash and Cash Equivalents	758	439
Cash and Cash Equivalents, Beginning of Year	4,532	4,093
Cash and Cash Equivalents, End of Year	\$ 5,290	\$ 4,532
Supplementary Cash Flow Information		
Long-term debt and capital leases incurred for purchase of property and equipment	\$ -	\$ 4,579
Reclassification of land from property and equipment to real estate investment	\$ -	\$ 254
Write-off of software note payable	\$ -	\$ 555
Donated asset	\$ -	\$ 11
Application of related party debt against related party receivable	\$ 83	\$ -
Cash paid for interest	\$ 733	\$ 630

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The consolidated financial statements include Biblica US, Inc. (a wholly-owned subsidiary of Biblica, Inc.) and International Bible Society-Canada (IBS, Canada), collectively referred to as the Organization.

Established in 1809, Biblica US, Inc., headquartered in Colorado Springs, Colorado since 1988, is organized as a not-for-profit organization, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation under Section 509(a)(2).

Biblica US, Inc. operates two primary divisions in the United States. The headquarters (COS) division is primarily responsible for the translation, publishing, resource development and Bible engagement programs in the United States and is the coordinating organization for directing the worldwide ministry of its affiliates. The STL Distribution North America (STLD-NA) division, operating from Elizabethton, Tennessee, with additional distribution facilities in Waynesboro, Georgia and Sparks, Nevada, is primarily responsible for the wholesale distribution of Bibles and biblical resources in North America and internationally.

Control: Biblica, Inc. is the sole voting member of Biblica US, Inc. and appoints its Board of Directors. The accompanying financial statements exclude all accounts and transactions of the parent, Biblica, Inc.

Brother-Sister Entities: Biblica, Inc. is also the sole voting member of IBS-STL UK, an organization that ceased operations during fiscal year 2010, Biblica Ministries Foundation, Biblica Europe Ministries Trust, Biblica Latin America and Biblica Northeast Asia. These are thus “brother-sister” organizations of Biblica US, Inc. The accompanying financial statements do not include the activities of these brother-sister organizations.

Affiliates: Seven affiliated organizations carry out the international portion of the ministry of Biblica US, Inc.:

Controlled Affiliate: As of June 1, 2005, IBS-Canada effectively became a controlled affiliate of Biblica US, Inc.

Noncontrolled Affiliates: The remaining six affiliated organizations—Biblica Africa, Biblica Europe, Biblica East Asia, Biblica Southeast Asia, IBS-Middle East and Biblica India—have their own Boards of Directors and have agreed to align themselves with the mission of Biblica US, Inc. through an affiliation agreement. The accompanying consolidated financial statements do not include the activities of the noncontrolled affiliates.

Mission: Our mission is transforming lives through God’s Word. Our work will be complete when every person in the world is given the opportunity to encounter Jesus Christ through God’s Word and be transformed. We do our work through four core strategies of translation, publishing, Bible engagement and distribution.

Biblica US, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

February 28, 2011 and 2010

Ministry functions: Ministries are conducted in furtherance of the exempt purposes of the Organization through the following programs:

- **Translation:** The Organization translates the Bible and biblical resources into languages spoken by 1 million - plus speakers. In its 200-year history, the Organization has translated the Bible into more than 100 languages worldwide and is currently working on 34 translation projects.
- **Publishing:** The Organization produces Bibles and biblical resources to meet the needs of people in different cultures, conditions and beliefs. These resources include full Bibles, New Testaments, Scripture portions and other forms of Christian content, including books on world missions, Christian living and Bible study resources.
- **Bible Engagement:** The Organization offers programs and resources to individuals, churches and ministries to engage people more deeply in Scripture for life application and transformation. These programs include ministry to children and youth, crisis and disaster victims, prison inmates, deployed troops and many others.
- **Distribution:** The Organization provides Bibles and a broad range of Christian products to bookstores, churches and individuals through its distribution centers in Tennessee, Georgia and Nevada. Through this service, the Organization is able to provide the broadest range of Christian resources to Christian consumers throughout North America, Africa and other parts of the world.

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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At February 28, 2011, cash equivalents consisted primarily of money market, checking and savings accounts.

The financial institutions holding the Organization's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Effective July 21, 2010, insurance limits under the FDIC were permanently increased to \$250,000. Insurance limits under the NCUA (National Credit Union Administration) were \$250,000 at February 28, 2011. At February 28, 2011, the Organization's cash accounts exceeded federally insured limits by approximately \$3,470,000.

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2011 and 2010

Accounts Receivable

Accounts receivable consists primarily of amounts due from customers. Receivables become past due when they exceed their contractual due date. The contractual due date will vary by customer but normally ranges from 30 days to 90 days. The allowance for doubtful accounts is maintained at a level that, in management's judgment, is adequate to absorb possible losses. The amount is based upon an analysis of overall trade receivables by management. Management's evaluation of the allowance for doubtful accounts includes, but is not limited to, the historical experience of payment patterns from the customer, financial condition of the customer, other known facts and circumstances and general economic conditions. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for doubtful accounts in the period in which they become known. Receivables are written off when all methods of collection have been exhausted.

Inventory

Inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method and consist primarily of English and foreign language Bibles, New Testaments and Scripture portions, Christian books, homeschool curriculum and supplies, Bible software, apparel, DVD's and CD's.

In addition to inventory that it owns, the Organization, in furtherance of its exempt purposes, provides warehousing and distribution of Bible and biblical resources inventory for other organizations. The inventory held for these other organizations is not included in these consolidated financial statements.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Useful lives range from three to 40 years.

Investments

All investments are carried at fair market value.

Deferred Production Costs

The Organization incurs translation and production costs on products it develops. These costs are capitalized for products from which management expects to recover its production costs through future sales. Capitalized production costs of \$509,000 and \$132,000 as of February 28, 2011 and 2010, respectively, are included in other assets on the Statement of Financial Position and are amortized over their expected future lives of 60 months. Amortization expense for the years ended February 28, 2011 and 2010 was \$52,000 and \$125,000, respectively.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Temporarily restricted net assets at February 28, 2011 and 2010 are restricted for use in translation and Bible engagement ministries.

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2011 and 2010

Revenue Recognition

Bible and Biblical Resource Sales

Revenue from the sale of products is recognized as products are delivered to customers or for certain customers under bill and hold arrangements, when specific criteria are met, including physically segregating the product for shipment. Revenue from the Publisher Services is recognized as the services are provided to other organizations.

Royalty Income

Royalty income is recognized as royalties are earned.

Contributions

Contributions are recorded when cash is received or unconditionally promised, or ownership of donated assets is transferred to the Organization. Contributions restricted by the donors for specific purposes are set aside in a restricted cash account until funds have been expended for the purposes specified and are recorded as support in the temporarily restricted class of net assets. Upon satisfaction of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions. Bequests are recorded as income at the time a right to the bequest has been established and the proceeds are measurable. Contributions received with donor restrictions that are spent in the same year are reported as temporarily restricted revenues and net assets released from restrictions.

In-kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of various items from donors. The Organization received donated inventory related to its Bible engagement ministry program totaling approximately \$100,000 in 2011 and \$180,000 in 2010. It is the policy of the Organization to record the estimated fair value of the donated inventory as contribution revenue and corresponding Bible engagement program expense.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. There was no significant unrelated business taxable income during the year.

The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2011 and 2010

Subsequent Events

Subsequent events have been evaluated through June 17, 2011, which is the date the financial statements were available to be issued.

Note 2: Accounts Receivable

Accounts receivable consists of the following:

	2011	2010
Trade accounts receivable	\$ 8,322,000	\$ 9,853,000
Less allowance for doubtful accounts and returns	(785,000)	(849,000)
	\$ 7,537,000	\$ 9,004,000

Note 3: Royalties, Pledges and Other Receivables

Royalties, pledges and other receivables consist of:

	2011	2010
Royalties receivable	\$ 944,000	\$ 1,080,000
Demand note receivable from related party	917,000	-
Pledges receivable	-	1,221,000
Other receivables	351,000	445,000
	\$ 2,212,000	\$ 2,746,000

On February 17, 2010, Biblica Ministries Foundation made an unconditional pledge of \$1,000,000 to the Organization. This pledge receivable has been recorded in these financial statements as a pledge receivable for the year ended February 28, 2010. During the year ended February 28, 2011, the Organization applied \$83,000 of this related party pledge receivable against a related party debt. During January 2011, the related party pledge receivable, with a balance of \$917,000, was converted into a demand note receivable from related party with an interest rate of LIBOR plus 1%. Payment is due within 30 days of demand notification.

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2011 and 2010

Note 4: Property and Equipment

Property and equipment consists of:

	2011	2010
Land	\$ 1,743,000	\$ 1,743,000
Buildings and leasehold improvements	9,860,000	9,823,000
Furniture, fixtures and equipment	2,682,000	2,687,000
Computer equipment and software	1,715,000	1,724,000
Vehicles	143,000	153,000
	16,143,000	16,130,000
Less accumulated depreciation	(6,320,000)	(5,975,000)
	\$ 9,823,000	\$ 10,155,000

Depreciation expense was \$507,000 and \$482,000 for the years ended February 28, 2011 and 2010, respectively. In addition to depreciation, the Organization recognized an impairment of \$596,000 in 2010 related to software, which had been under development with IBS-STL UK. During 2010, management of both organizations elected to terminate the development and fully impair the cost of the software, which had been capitalized. The loss on impairment on the Organization's financial statements is net of the related note payable, with an outstanding balance of \$705,000 at February 28, 2009, which was ultimately not paid by the Organization.

Note 5: Disclosures About Fair Value of Assets and Liabilities

Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2011 and 2010

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Real Estate Investment

During fiscal year 2010, management of the Organization reviewed the long-term use of land located in Colorado Springs, Colorado. A portion of the Organization's land was originally acquired in anticipation of expansion of the Colorado Springs operations. Subsequent to the acquisition of the land, the Organization merged in the STLD-NA division and over time relocated materially all distribution operations to the STLD-NA facilities in Tennessee, Georgia and Nevada, thus eliminating the need for expansion at the Colorado Springs facility. As a result, the land was reclassified out of property and equipment and into investments during 2010. Under the Organization's accounting policies, investments are carried at fair value. As a result, the Organization adjusted the value of the land to \$1,300,000 and \$1,325,000 at February 28, 2011 and 2010, respectively, based on appraisals by a third party, and classified the investment within Level 3 of the hierarchy. Currently, the Organization is actively trying to sell the land.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the Topic 820 fair value hierarchy in which the fair value measurements fall at February 28, 2011:

		2011			
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value					
Real estate	\$ 1,300,000	\$	-	\$	-
					\$ 1,300,000
		2010			
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value					
Real estate	\$ 1,325,000	\$	-	\$	-
					\$ 1,325,000

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	Real Estate
Balance, March 1, 2009	\$ -
Transfers into Level 3 ^(a)	254,000
Total realized and unrealized gains included in change in net assets	1,071,000
Balance, February 28, 2010	1,325,000
Total realized and unrealized losses included in change in net assets	(25,000)
Balance, February 28, 2011	\$ 1,300,000
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	
Year ended February 28, 2010	\$ 1,071,000
Year ended February 28, 2011	\$ (25,000)

(a) For description of transfer, see “Real Estate Investment” disclosure on page 12.

Note 6: Line of Credit

At February 28, 2011 and 2010, Biblica US, Inc. had an outstanding line of credit balance of \$2,643,000 and \$3,250,000, respectively. The \$3,250,000 maximum line of credit payable to First Tennessee Bank is due August 1, 2011, with interest at LIBOR, plus 3.50%, which is payable monthly, secured by accounts receivable, other receivables and inventory. The line is also subject to certain loan covenants.

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2011 and 2010

Note 7: Long-term and Subordinated Debt

Long-term debt consists of the following:

	<u>2011</u>	<u>2010</u>
Note payable, Operation Mobilization (A)	\$ 189,000	\$ 369,000
Noncompete agreement (B)	214,000	313,000
Note payable, First Tennessee Bank (C)	4,592,000	4,745,000
Note payable, Biblica Ministries Foundation (D)	322,000	332,000
Note payable, Biblica Ministries Foundation (E)	-	90,000
Capital lease obligations (F)	199,000	254,000
Capital lease obligations (G)	3,923,000	4,179,000
Capital lease obligations (H)	13,000	56,000
Mortgage payable, ECCU (I)	986,000	997,000
	<hr/>	<hr/>
Total long-term debt	10,438,000	11,335,000
Subordinated debt (J)	2,750,000	2,750,000
	<hr/>	<hr/>
Total long-term and subordinated debt	13,188,000	14,085,000
Less current maturities	(834,000)	(808,000)
	<hr/>	<hr/>
	<u>\$ 12,354,000</u>	<u>\$ 13,277,000</u>

- (A) Due February 2012; payable \$200,000 annually with no stated rate of interest (imputed discount of \$11,000 at February 28, 2011, using a 5.78% discount rate); unsecured
- (B) Due 2013; payable to seller under a noncompete agreement; payable \$115,000 annually with no stated rate of interest (imputed discount of \$16,000 at February 28, 2011, using a 5.00% discount rate)
- (C) Due June 5, 2013 to First Tennessee Bank; payable \$34,000 monthly with interest at 5.49%; secured by deed of trust on Biblica US, Inc.'s real estate and building located in Colorado; average balance of \$1 million in deposits is required to be held at the bank; the Organization can draw up to \$5,350,000 on this note; this note stipulates that the Organization be subject to prepayment penalties in the event the note is refinanced from proceeds of any financial institution other than First Tennessee Bank
- (D) Due July 1, 2013 to Biblica Ministries Foundation for the purchase of property in Miami, Florida; payable \$2,539 monthly with interest at 6.25%; secured by the property in Florida

Biblica US, Inc. and Subsidiaries
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- (E) Original note due March 15, 2013 to Biblica Ministries Foundation for the purchase of property in Hyderabad, India; payable \$2,564 monthly, with interest at 4.00%, through March 2009 and escalating to \$2,629 monthly, with interest at 5.00%, from April 2009 to March 2013; unsecured. During 2011, the property was sold and the remaining note balance was applied against a related party pledge receivable (See Note 3)
- (F) Capital lease Elizabethton, Tennessee office modulars, payable \$5,644 monthly with interest at 7.75%, expiring on June 2014
- (G) Capital lease Elizabethton, Tennessee building, monthly payments of \$31,500 through May 2013, including imputed interest at 2.07%, with bargain purchase option of approximately \$3,265,000 (net of credits for improvements made to the building) in June 2013
- (H) Capital leases include leases covering data processing equipment, warehouse equipment and other equipment, interest rates ranging from 6.00% to 10.00%, expiring at various dates through July 2014
- (I) Due November 1, 2014 to Evangelical Christian Credit Union (ECCU); payable \$6,488 monthly with interest at 6.75% and a balloon payment at the end of the term of approximately \$945,000; secured by the deed of trust on Biblica US, Inc.'s real estate and building located in Georgia
- (J) Subordinated debt; due June 2014; secured acquisition loan from seller with interest at 5.00%; payment of first year's accrued interest is deferred until 2014 with the remaining interest due quarterly; scheduled annual principal installments ranging from \$350,000 to \$750,000 beginning July 22, 2009. However, payments are not permitted without approval of First Tennessee Bank. Note holder has been informed no payments will be permitted in fiscal year 2012, thus entire balance has been classified as long-term as of February 28, 2011

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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Aggregate Maturities

Aggregate annual maturities of long-term debt and principal payments on capital lease obligations at February 28, 2011 are as follows:

	Long-term Debt	Capital Lease Obligations
2012	\$ 478,000	\$ 449,000
2013	2,304,000	449,000
2014	5,323,000	3,399,000
2015	948,000	27,000
	<u>\$ 9,053,000</u>	<u>4,324,000</u>
Less amount representing interest		<u>189,000</u>
Present value of future minimum lease payments		<u>\$ 4,135,000</u>

Property and equipment include the following property under capital leases:

	2011	2010
Land and building	\$ 4,695,000	\$ 4,695,000
Equipment	15,000	423,000
	<u>4,710,000</u>	<u>5,118,000</u>
Less accumulated depreciation	<u>(162,000)</u>	<u>(256,000)</u>
	<u>\$ 4,548,000</u>	<u>\$ 4,862,000</u>

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2011 and 2010

Note 8: Concentrations

Royalty Agreements

The Organization has entered into royalty agreements with several publishers to which the right has been granted to use the Holy Bible, *New International Version* (NIV) family of translations and the *New International Reader's Version* (NIrV), in developing various products and formats, such as text, video, audio, digital and electronic for the English speaking market. The Organization's primary agreement with a major publisher was renegotiated in 1995 and continues until the year 2023. Royalty income from this publisher totaled \$5,742,000 and \$5,231,000, respectively, for the years ended February 28, 2011 and 2010, which comprised 79% and 78% of royalty income, respectively.

Transfer of Copyrights

During the year ended February 28, 2010, the copyrights to the NIV family of translations, NIrV and the Organization's foreign language Bibles were transferred to its Parent, Biblica, Inc. In exchange, Biblica, Inc. granted Biblica US, Inc. an exclusive, royalty free license to use the copyrights.

Note 9: Operating Leases

Noncancellable operating leases for office and warehouse space and equipment expire in various years through 2015. These leases generally require the Organization to pay all executory costs (property taxes, maintenance and insurance). The Organization also leases certain property under leases with terms less than one year.

Future minimum lease payments at February 28, 2011 were as follows:

2012	\$ 152,000
2013	146,000
2014	27,000
2015	<u>3,000</u>
	<u>\$ 328,000</u>

Rental expense for all operating leases was approximately \$241,000 and \$544,000 for the years ended February 28, 2011 and 2010, respectively.

During February 2010, the Organization entered into a lease agreement to rent a portion of its office and warehouse space, located in Colorado Springs to one tenant. The lease term commenced on April 16, 2010 and stipulates monthly rent of approximately \$11,000. The lease term is 16 months from the commencement date with an option to renew for an additional three years.

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2011 and 2010

Note 10: Related Party Transactions

The following are related party transactions and account balances included in various line items in the Biblica US, Inc. statement of financial position and statement of activities as of and for the year ended February 28, 2011 and 2010:

	2011		
	Noncontrolled Affiliates	Biblica, Inc.	"Brother-Sister" Entities
Revenues and Expenses			
Donation income	\$ -	\$ -	\$ 50,000
Royalties	2,000	-	-
Sales	153,000	-	114,000
Cost of sales	140,000	-	103,000
Grants expense	2,533,000	446,000	1,379,000
Rent expense	-	-	24,000
Assets and Liabilities			
Accounts receivable	150,000	12,000	202,000
Demand note receivable	-	-	917,000
Inventory	17,000	-	2,000
Notes receivable	14,000	-	30,000
Accounts and lease payable	-	-	10,000
Mortgage payable	-	-	322,000
	2010		
	Noncontrolled Affiliates	Biblica, Inc.	"Brother-Sister" Entities
Revenues and Expenses			
Donation income	\$ -	\$ -	\$ 1,062,000
Sales	150,000	-	356,000
Cost of sales	113,000	-	227,000
Grants expense	2,292,000	467,000	2,243,000
Contributed services expense	-	-	104,000
Rent expense	-	-	24,000
Assets and Liabilities			
Accounts receivable	76,000	-	74,000
Pledge receivable	-	-	1,000,000
Inventory	29,000	-	130,000
Notes receivable	26,000	-	88,000
Accounts and lease payable	3,000	2,000	10,000
Mortgages payable	-	-	422,000

Biblica US, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2011 and 2010

Note 11: Pension and Other Post-retirement Benefit Plans

The Organization has a 403(b) defined contribution pension plan covering substantially all employees. Employees vest 25% per year over a four-year period in the Biblica US, Inc.'s contributions. Effective December 1, 2008, employer matching contributions were frozen, thus there were no Biblica US, Inc. employer contributions to the 403(b) plan during years ended February 28, 2011 and 2010.

Note 12: Allocation of Joint Costs

The costs of providing various programs services and supporting activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs, such as salaries, have been allocated among the programs and supporting activities benefited. The Organization incurred joint costs of \$78,000 and \$95,000 for the years ended February 28, 2011 and 2010, respectively. These joint costs were allocated as follows:

	2011	2010
Program services	\$ 2,000	\$ 21,000
General and administrative	44,000	32,000
Fund raising	32,000	42,000
	\$ 78,000	\$ 95,000

Note 13: Commitments and Contingencies

Inventory

The Organization has purchase commitments with two publishers under “make and hold” arrangements. The total commitment to these two vendors is approximately \$1,905,000 at February 28, 2011.

General Litigation

The Organization is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Organization.

Supplementary Information

Independent Accountants' Report on Supplementary Information

Board of Directors
Biblica US, Inc. and Subsidiaries
Colorado Springs, Colorado

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary schedules of functional expenses and consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, and are not a required part of the basic consolidated financial statements. The schedules of functional expenses and the consolidating information have been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

As of and for the year ended February 28, 2010, the Organization has elected to reclassify certain assets and liabilities between divisions to better reflect the operations and management of the Organization's divisions. These reclassifications had no affect on the basic consolidated financial statements of the Organization as of and for the year ended February 28, 2010.

\s\ **BKD, LLP**

June 17, 2011

Biblica US, Inc. and Subsidiaries
Consolidated Schedule of Functional Expenses
Year Ended February 28, 2011
(in thousands)

	Translation	Publishing	Bible Engagement	Distribution	General and Administrative	Fund Raising	Total Expenses
Cost of sales	\$ -	\$ -	\$ 7,179	\$ 29,290	\$ -	\$ -	\$ 36,469
Salaries and benefits	125	1,618	1,211	3,386	2,769	610	9,719
Marketing and promotion	-	623	52	205	53	328	1,261
Ministry grants and grants of Scripture	860	1,189	2,496	-	207	121	4,873
Freight, shipping and postage	-	42	1,300	2,494	38	10	3,884
Depreciation and amortization	6	103	53	278	91	28	559
Professional services	-	900	181	25	534	55	1,695
Travel	26	67	91	172	97	61	514
Interest	-	-	-	-	730	-	730
Equipment and supplies	1	34	10	348	227	8	628
Utilities, phone and occupancy	18	95	117	689	205	51	1,175
Other expenses	-	11	208	1,049	197	6	1,471
	<u>\$ 1,036</u>	<u>\$ 4,682</u>	<u>\$ 12,898</u>	<u>\$ 37,936</u>	<u>\$ 5,148</u>	<u>\$ 1,278</u>	<u>\$ 62,978</u>
Total	<u>\$ 1,036</u>	<u>\$ 4,682</u>	<u>\$ 12,898</u>	<u>\$ 37,936</u>	<u>\$ 5,148</u>	<u>\$ 1,278</u>	<u>\$ 62,978</u>

Biblica US, Inc. and Subsidiaries
Consolidating Statement of Financial Position
February 28, 2011
(in thousands)

	Colorado Division	STLD-NA Division	Eliminations	Biblica US, Inc.	IBS, Canada	Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 5,038	\$ 195	\$ -	\$ 5,233	\$ 57	\$ 5,290
Accounts receivables - net	990	6,808	(261)	7,537	-	7,537
Royalties, pledges and other receivables	1,860	352	-	2,212	-	2,212
Inventory	2,526	7,029	-	9,555	-	9,555
Prepaid expenses and other assets	211	119	-	330	-	330
Total current assets	10,625	14,503	(261)	24,867	57	24,924
Property and equipment - net	3,272	6,551	-	9,823	-	9,823
Real estate investment	1,300	-	-	1,300	-	1,300
Notes receivable from related parties	44	-	-	44	-	44
Other assets	777	-	-	777	-	777
Total assets	\$ 16,018	\$ 21,054	\$ (261)	\$ 36,811	\$ 57	\$ 36,868
Liabilities and Net Assets						
Current Liabilities						
Outstanding checks in excess of bank balance	\$ -	\$ 265	\$ -	\$ 265	\$ -	\$ 265
Line of credit	-	2,643	-	2,643	-	2,643
Accounts payable and accrued liabilities	2,345	7,754	(261)	9,838	-	9,838
Current maturities of long-term and subordinated debt and capital lease obligations	173	661	-	834	-	834
Total current liabilities	2,518	11,323	(261)	13,580	-	13,580
Noncurrent Liabilities						
Royalty advances	1,026	-	-	1,026	-	1,026
Custodial liability	257	-	-	257	-	257
Long-term debt and capital lease obligations, net of current portion	4,742	4,862	-	9,604	-	9,604
Subordinated debt, net of current portion	-	2,750	-	2,750	-	2,750
Total liabilities	8,543	18,935	(261)	27,217	-	27,217
Net Assets						
Unrestricted	6,223	2,119	-	8,342	55	8,397
Temporarily restricted	1,252	-	-	1,252	2	1,254
Total net assets	7,475	2,119	-	9,594	57	9,651
Total liabilities and net assets	\$ 16,018	\$ 21,054	\$ (261)	\$ 36,811	\$ 57	\$ 36,868

Biblica US, Inc. and Subsidiaries
Consolidating Statement of Activities
Year Ended February 28, 2011
(in thousands)

	Colorado Division	STLD-NA Division	Eliminations	Biblica US, Inc.	IBS, Canada	Total
Revenues, Gains and Other Support						
Bible and biblical resource sales	\$ 14,315	\$ 39,664	\$ (2,071)	\$ 51,908	\$ -	\$ 51,908
Royalty income	7,317	-	-	7,317	-	7,317
Contributions	3,363	23	-	3,386	36	3,422
Investment and other income	194	1,129	(455)	868	-	868
	<u>25,189</u>	<u>40,816</u>	<u>(2,526)</u>	<u>63,479</u>	<u>36</u>	<u>63,515</u>
Total revenues, gains and other support						
Expenses						
Program services						
Translation	1,036	-	-	1,036	-	1,036
Publishing	4,682	-	-	4,682	-	4,682
Bible engagement	13,714	-	(840)	12,874	24	12,898
Distribution	-	39,622	(1,686)	37,936	-	37,936
	<u>19,432</u>	<u>39,622</u>	<u>(2,526)</u>	<u>56,528</u>	<u>24</u>	<u>56,552</u>
Total program services						
Supporting services						
General and administrative	3,140	2,006	-	5,146	2	5,148
Fund raising	1,275	-	-	1,275	3	1,278
	<u>23,847</u>	<u>41,628</u>	<u>(2,526)</u>	<u>62,949</u>	<u>29</u>	<u>62,978</u>
Total expenses						
Change in Net Assets	1,342	(812)	-	530	7	537
Net Assets, Beginning of Year	<u>6,865</u>	<u>2,199</u>	<u>-</u>	<u>9,064</u>	<u>50</u>	<u>9,114</u>
Interdivisional Transfers	<u>(732)</u>	<u>732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 7,475</u>	<u>\$ 2,119</u>	<u>\$ -</u>	<u>\$ 9,594</u>	<u>\$ 57</u>	<u>\$ 9,651</u>

Biblica US, Inc. and Subsidiaries
Consolidated Schedule of Functional Expenses
Year Ended February 28, 2010
(in thousands)

	Translation	Publishing	Bible Engagement	Distribution	General and Administrative	Fund Raising	Total Expenses
Cost of sales	\$ -	\$ -	\$ 7,216	\$ 32,393	\$ -	\$ -	\$ 39,609
Salaries and benefits	130	1,573	1,231	3,695	2,688	575	9,892
Marketing and promotion	8	654	20	264	40	596	1,582
Ministry grants and grants of Scripture	670	909	3,708	-	434	-	5,721
Freight, shipping and postage	-	30	1,332	2,713	63	17	4,155
Depreciation and amortization	4	184	50	260	677	28	1,203
Professional services	10	526	85	52	265	113	1,051
Travel	9	67	153	177	98	103	607
Interest	-	-	-	-	676	-	676
Equipment and supplies	2	34	29	420	159	24	668
Utilities, phone and occupancy	6	95	119	959	218	52	1,449
Other expenses	1	9	241	1,387	148	6	1,792
	<u>1</u>	<u>9</u>	<u>241</u>	<u>1,387</u>	<u>148</u>	<u>6</u>	<u>1,792</u>
Total	<u>\$ 840</u>	<u>\$ 4,081</u>	<u>\$ 14,184</u>	<u>\$ 42,320</u>	<u>\$ 5,466</u>	<u>\$ 1,514</u>	<u>\$ 68,405</u>

Biblica US, Inc. and Subsidiaries
Consolidating Statement of Financial Position
February 28, 2010
(in thousands)

	Colorado Division	STLD-NA Division	Eliminations	Biblica US, Inc.	IBS, Canada	Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 4,273	\$ 209	\$ -	\$ 4,482	\$ 50	\$ 4,532
Accounts receivables - net	482	8,697	(175)	9,004	-	9,004
Royalties, pledges and other receivables	2,329	417	-	2,746	-	2,746
Inventory	2,381	7,289	-	9,670	-	9,670
Prepaid expenses and other assets	357	184	-	541	-	541
Total current assets	9,822	16,796	(175)	26,443	50	26,493
Property and equipment - net	3,360	6,795	-	10,155	-	10,155
Real estate investment	1,325	-	-	1,325	-	1,325
Notes receivable from related parties	114	-	-	114	-	114
Other assets	313	-	-	313	-	313
Total assets	\$ 14,934	\$ 23,591	\$ (175)	\$ 38,350	\$ 50	\$ 38,400
Liabilities and Net Assets						
Current Liabilities						
Outstanding checks in excess of bank balance	\$ -	\$ 388	\$ -	\$ 388	\$ -	\$ 388
Line of credit	-	3,250	-	3,250	-	3,250
Accounts payable and accrued liabilities	1,530	8,837	(175)	10,192	-	10,192
Current maturities of long-term and subordinated debt and capital lease obligations	195	613	-	808	-	808
Total current liabilities	1,725	13,088	(175)	14,638	-	14,638
Noncurrent Liabilities						
Royalty advances	1,252	-	-	1,252	-	1,252
Custodial liability	119	-	-	119	-	119
Long-term debt and capital lease obligations, net of current portion	4,973	5,554	-	10,527	-	10,527
Subordinated debt, net of current portion	-	2,750	-	2,750	-	2,750
Total liabilities	8,069	21,392	(175)	29,286	-	29,286
Net Assets						
Unrestricted	5,396	2,199	-	7,595	48	7,643
Temporarily restricted	1,469	-	-	1,469	2	1,471
Total net assets	6,865	2,199	-	9,064	50	9,114
Total liabilities and net assets	\$ 14,934	\$ 23,591	\$ (175)	\$ 38,350	\$ 50	\$ 38,400

Biblica US, Inc. and Subsidiaries
Consolidating Statement of Activities
Year Ended February 28, 2010
(in thousands)

	Colorado Division	STLD-NA Division	Eliminations	Biblica US, Inc.	IBS, Canada	Total
Revenues, Gains and Other Support						
Bible and biblical resource sales	\$ 13,337	\$ 43,626	\$ (1,479)	\$ 55,484	\$ -	\$ 55,484
Royalty income	6,687	-	-	6,687	-	6,687
Contributions	4,622	39	-	4,661	26	4,687
Investment and other income	1,300	1,216	(455)	2,061	8	2,069
	<u>25,946</u>	<u>44,881</u>	<u>(1,934)</u>	<u>68,893</u>	<u>34</u>	<u>68,927</u>
Total revenues, gains and other support						
Expenses						
Program services						
Translation	837	-	-	837	3	840
Publishing	4,090	-	(9)	4,081	-	4,081
Bible engagement	14,823	-	(662)	14,161	23	14,184
Distribution	-	43,583	(1,263)	42,320	-	42,320
	<u>19,750</u>	<u>43,583</u>	<u>(1,934)</u>	<u>61,399</u>	<u>26</u>	<u>61,425</u>
Total program services						
Supporting services						
General and administrative	3,590	1,875	-	5,465	1	5,466
Fund raising	1,507	-	-	1,507	7	1,514
	<u>24,847</u>	<u>45,458</u>	<u>(1,934)</u>	<u>68,371</u>	<u>34</u>	<u>68,405</u>
Total expenses						
Change in Net Assets	1,099	(577)	-	522	-	522
Net Assets, Beginning of Year	<u>6,511</u>	<u>2,031</u>	<u>-</u>	<u>8,542</u>	<u>50</u>	<u>8,592</u>
Interdivisional Transfers	<u>(745)</u>	<u>745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 6,865</u>	<u>\$ 2,199</u>	<u>\$ -</u>	<u>\$ 9,064</u>	<u>\$ 50</u>	<u>\$ 9,114</u>