HEROES INC
Form 10KSB/A
March 25, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2000

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to __________

Commission file number 0-12597

Heroes, Inc.
(Name of small business issuer in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

11-1843262
(I.R.S. Employer Identification No.)

1915B Chain Bridge Road, Suite 506, McLean, Virginia 22102
(703) 761-1900
(Address of principal executive offices) (Zip Code) (Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

NONE

Securities registered under Section 12(g) of the Exchange Act:

(Title of class)
Common Stock, par value $0.001

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **X** No ___

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year. **$6,437,415**

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) **As of March 15, 2002, the aggregate market value of the voting and non-voting common equity held by non-affiliates was $122,451.46.**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. **99,213,109 as of March 15, 2002**

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The list documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990). NONE.

Transitional Small Business Disclosure Format (check one):

Yes ___ No _X_

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PART I

FORWARD-LOOKING STATEMENTS

Certain statements contained in this filing are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to financial results and plans for future business development activities, and are thus prospective. These statements appear in a number of places in this Annual Report and include all statements that are not statements of historical fact regarding intent, belief or our current expectations with respect to, among other things: (i) our financing plans; (ii) trends affecting our financial condition or results of operations; (iii) our growth strategy and operating strategy; and (iv) the declaration and payment of dividends. The words "may," "would," "could," "will," "expect," "estimate," "anticipate," "believe," "intend," "plans," and similar expressions and variations thereof are intended to identify forward-looking statements.

Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, many of which are beyond our ability to control. Actual results may differ materially from those projected in the forward-looking statements as a result of various factors. Among the key risks, assumptions and factors that may affect operating results, performance and financial condition are reliance on a small number of customers for a larger portion of our revenues, fluctuations in our quarterly results, ability to continue and manage growth, liquidity and other capital resources issues, competition and the other factors discussed in detail in our filings with the Securities and Exchange Commission.

Item 1. Description of Business.

History And Organization

Heroes, Inc. ("we," "Heroes" or the "Company") was incorporated under the laws of the State of Delaware on December 7, 1953, under the name Erie Reinforced Plastic Pipe Company. During 1957, the Company changed its name to Penn-Akron Corporation. The Company was originally incorporated for the purpose of manufacturing plastic pipe, but discontinued these operations in 1973 after a Chapter 11 bankruptcy proceeding in the United States Bankruptcy Court for the District of Connecticut. The Court discharged the Company on October 11, 1978. The Company was dormant from approximately 1973 until 1984.

From 1984 until approximately March 1, 1987, the Company and its wholly-owned subsidiary, Petroleum Basins Exploration, Inc., were engaged in the business of oil and gas exploration, development and production. The prices for oil and gas declined, and the Company could not afford to continue its oil and

gas exploration activities. The oil and gas properties of the Company were leased to other entities. The Company was unable to renew these leases once they expired. The Company's inability to renew its leases caused the Company to go into inactivity.

The Company was reactivated in 2000. Pursuant to a Merger Agreement (the "Merger Agreement") dated as of March 23, 2000, between us and Spherus Technologies, Inc. ("Spherus"), a Georgia corporation, all of the outstanding shares of common stock of Spherus were converted into the right to receive 12,319,461 shares of our Common Stock in a transaction in which we continued as the surviving corporation, and the separate corporate existence of Spherus ceased (the "Merger"). The shares issued to the Spherus shareholders represented approximately 42% of our outstanding Common Stock following the transaction.

On December 4, 2000, we changed our name to Heroes, Inc. Since that time, we have conducted business providing single-source, media-technology and curriculum-enhancement solutions to schools. We are a technology-driven company that specializes in delivering educational content to school classrooms. We provide media-technology and curriculum enhancement solutions to kindergarten through twelfth grade public and private schools. Additionally, we are positioning ourselves to provide new and expanded sources of educational content and other learning services to both higher education and corporate training environments.

The original concept for Heroes began in 1998 when Spherus responded to a request from the Metro Regional Educational Services Agency ("MRESA") in Atlanta (a division of the Georgia Department of Education) for specialized video curriculum enhancement for its schools. The resulting comprehensive suite of products and services provided "on-demand" video and was referred to as the MRESAnet 2000 project. In 1999, Spherus was awarded a contract for the MRESAnet project. The contract provided for payment totaling $22 million in the first year. In 1999, Spherus recorded $20,097,000 in gross revenues resulting from its work on the MRESAnet project.

The pilot project was implemented in 192 schools within MRESA's jurisdiction. Stage 1 of the project was completed in 1999. At present, the project is on hold pending completion of a government audit. If the project proceeds, we anticipate that Stages 2 and 3 would be completed over the next several years. In that event, we would maintain responsibility for continuity and contract fulfillment for the MRESAnet project and have the option of using contractors to coordinate, manage and administer performance of the installation of the network components to the MRESA schools. Our primary focus is to replicate the model we developed for the MRESAnet project for use in additional school systems in Georgia and other parts of the United States. The system model created for the project is capable of providing direct-to-the-classroom lesson planning tools, with an accompanying library of supplemental curriculum-enhancement content.

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To supplement our then-existing product line and market potential, on October 13, 2000, we purchased substantially all of the assets of Children's Heroes.com, Inc., a Nevada corporation ("Children's Heroes"). The aggregate purchase price for the assets of Children's Heroes was 235,000 shares of our common stock. Additionally, we issued approximately 1,260,750 shares of our common stock to certain creditors of an affiliate of Children's Heroes, in consideration for certain releases of liability for Children's Heroes.

With the purchase of Children's Heroes, we intend to deploy a nationwide grass roots and on-line marketing system aimed at K-12 fundraising and developing Internet educational tools. The concept behind the fundraising program is simple. In addition to credit card companies' awarding a participant points towards Frequent Flyer miles, the participant will now be able seamlessly to have those rebate dollars automatically directed to his or her child's school and/or a college education fund by simply shopping at local participating merchants. Instead of students selling candy, wrapping paper or candles to neighbors and friends (a $70 billion industry), the schools ask parents to sign up for the Children's Heroes fundraising program.

On August 7, 2001, we signed a letter of intent to exchange certain of our shares for all the issued and outstanding shares of Internet Advantage, Inc. On September 28, 2001, the parties terminated the letter of intent because they could not agree on the terms of the deal.

On December 4, 2001, we filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code as an initial step in executing a financial restructuring. We filed the petition in the US Bankruptcy Court for the District of Virginia. Current conditions facing the national economy, and in particular the financial markets, have created an environment in which we have been unsuccessful in securing the financing necessary to meet on-going business expenses. Faced with the ongoing issues of non-payment by MRESA and the Schools and Libraries Division of the Universal Service Administrative Company, which rendered questionable our ability to collect on more than $8 million, management had no choice but to seek protection under chapter 11. Management elected to enter into a chapter 11 reorganization to facilitate obtaining new financing and to develop a plan of reorganization to be submitted to the court.

Services and Products

If we are able to obtain approval and financing for our plan of reorganization, we plan to provide the following services and products:

- Online Procurement

- K-12 School Fundraising
- Web-based community features
  - Free e-mail for students, parents, and teachers
  - Secure chat rooms for the school and the home
  - Free Search engine and database
- Search engine - a Children's Heroes brand search engine for students, with filtering features that can be configured by the parents and/or the teacher.

Growth Strategy

The Company is an e-learning integrator and facilitator for K-12 students, parents, and teachers. It provides localized grassroots marketing, training, and fundraising services that generate supplemental community-specific financial support to schools, homes, and commercial entities. If we are able to obtain approval and financing for our plan of reorganization, we anticipate that our revenues will be derived from:

- Children's Heroes fundraising services:
  - Membership subscriptions through credit card registration
  - Telecom subscriptions through ISP, cellular, and filtering
  - Click-on e-commerce rebates

- Point-of-Sale commerce rebates
- Portal subscription services
- Merchant acquisition and transaction services

o Subscription-based services for enhanced education resources for consumers and customized solutions for entire schools and districts

o Revenue sharing partnerships and strategic alliances

o E-procurement for schools as well as merchant and corporate accounts

By the end of 1999, our educational product offering was installed in over 192 schools. In 2000, we commenced installation of the same product offering in more than 71 additional schools. Having proven the feasibility and efficiency of this offering in a regional setting, we now intend to systematically develop other markets for it and expand our business. If we are able to obtain approval and financing for our plan of reorganization, we intend to adopt a rapid growth

strategy, launching in additional markets during 2002.

Parent-driven fundraising can expand our current business model from the school into the surrounding community. Our fundraising is uniquely focused on and designed for the adult consumer, and does not require the involvement of the school children, the method traditionally used in other fundraising activities. Our two community market channels--school and commerce--will allow us to highlight the cause-related marketing power behind our product offering.

The school channel captures the participation and trust of the parents and the education professionals. The commerce channel provides a commercial engine for funding education content delivery to schools and homes alike.

This strategy will allow us to use our revenue generation business model to fuel the deployment of educational content services. Leveraging its appeal, we hope to speed our market penetration and increase revenue potential through our combined offering.

This integrated strategy will provide substantial market time advantage over e-commerce fundraising portals and other Internet content companies, whose business models continue to be focused on increasing viewership and generating revenues through advertising and the online sale of educational products. These companies continue to focus on Internet marketing rather than relationship marketing and community building.

Our differentiating advantage centers on our distribution channels. As such, we are able to build long-term customer relationships with the subscribed parents, teachers, schools, and merchants, thus allowing continued avenues for the up-selling of additional educational products and services.

Other growth strategies include:

o Growth through innovative outsourcing of the primary sales functions through regionalized or localized independent contractors, who can enhance and further our business goals;

o Growth through direct sales in cases where specific learning sales opportunities are evident;

o Growth through relational channels resulting from established relationships with various industry connections; and

- o Growth through opportunistic strategic alliances, joint ventures and/or mergers with industry related companies who can augment, enhance and/or further our business goals, eventually expanding our network beyond the education arena into business and commercial environments.

Outsourcing

We rely on a number of subcontractors and vendors in connection with the delivery of our service. In addition to proprietary methodology, we bundle the products and services of vendors to satisfy our customers' needs.

Employees

As of December 31, 2001, we had 2 full-time employees.

Item 2. Description of Property.

In June 2001, we terminated our lease for office space and forfeited the $46,572 deposit. We have not obtained replacement commercial office space. We are currently operating from an officer's residence for no consideration. We own no other property.

Item 3. Legal Proceedings.

Lynxus, Inc. v. Penn-Akron Corporation n/k/a Heroes, Inc. On September 7, 2000, one of our subcontractors, Lynxus, Inc., filed suit against us in the United States District Court for the Northern District of Georgia. The claim arises out of a network implementation agreement between us and Metropolitan Regional Education Services Agency ("MRESA"). We are the general contractor under the agreement, and Lynxus agreed to act as a subcontractor on the project. Lynxus claims that we have breached the subcontract, that Lynxus has performed work under the contract, and that Lynxus is entitled to approximately $483,000 plus interest.

We have denied liability and have asserted a counterclaim for the damages we have suffered as a result of breach of the subcontract by Lynxus. We believe our damages exceed $2.8 million.

In the early stages of this litigation, Lynxus filed a bankruptcy petition in the United States Bankruptcy Court for the Northern District of Georgia, thereby staying action in the lawsuit.

Maurice Delamont v. Penn-Akron Corporation n/k/a Heroes, Inc. On August 24, 2000, Maurice Delamont, one of our former employees, filed two related actions in state courts in Cobb and Fulton Counties, Georgia. The two actions have been consolidated and are pending as a single arbitration proceeding. Mr. Delamont claims that we owe him $1,050,000 arising out of (i) a right to redemption of his stock in the Company, and (ii) a bonus. He also seeks access to certain books and records of the Company. We have asserted a counterclaim against Mr. Delamont, claiming that he breached his fiduciary duty and his employment agreement with us. We maintain that our damages for Mr. Delamont's actions are a defense to his claims and that its actual damages exceed the amount of Mr. Delamont's claims.

On November 13, 2000, we entered into a consent scheduling order with the Plaintiff, which, among other things, ordered the action to be decided by binding arbitration. Mr. Delamont filed a motion for summary judgment on June 15, 2001. On August 14, 2001, the Arbitrator denied the motion as untimely.

In August 2001, Mr. Delamont filed a motion to enforce settlement agreement or for the entry of a summary judgment in the State Court of Cobb County. On, November 9, 2001, the Court denied the motions. Based on oral arguments heard on September 17, 2001, the Court found that Mr. Delamont had failed to establish as a matter of law that there was an enforceable settlement. The Court also found that Mr. Delamont had failed to provide evidence that is sufficient to allow the court to grant summary judgment. Due to our Chapter 11 petition filing on December 4, 2001, action on this lawsuit has been stayed.

<u>Heroes, Inc. v. Sanswire.Net.</u> We are the plaintiff in an action against Sanswire.Net in the Superior Court of Fulton County, Georgia. We filed the lawsuit in March 2001, seeking to recover $200,000 in principal, together with accrued interest and attorneys' fees, under the terms of a promissory note. The promissory note was executed by Sanswire.Net on March 1, 2000.

<u>Mastermind, Inc. v Heroes, Inc.</u> On May 31, 2001, Mastermind Marketing filed a civil action in the State Court of Fulton County, Georgia. On September 19, 2001 Mastermind Marketing was awarded a default judgment in the amount of $169,246.41, including interest, for the preparation of presentations, marketing strategies, and other promotional programs and delivered intellectual property and other products, services and expenses. We are currently evaluating whether to appeal this judgment.

Item 4. Submission of Matters to a Vote of Security Holders.

As of October 30, 2000, pursuant to Section 78.320 of the Nevada General Corporation Law, we obtained the written consent of the holders of a majority of the outstanding shares of our common stock for the approval of the change in our

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name from Penn Akron Corporation to Heroes, Inc. On that date, the number of shares of our common stock outstanding was 34,787,742 shares; the number of shares that consented to approve the aforementioned actions was 17,436,448, representing 50.1% of the outstanding shares. We filed the amendment to the Company's Articles of Incorporation with the Nevada Secretary of State on December 4, 2000.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

During the past several years there has been no established trading market for the Company's common stock. The Company's common stock began trading again on May 4, 2000, and is traded on the OTC Bulletin Board under the symbol "HERS." Set forth below is a table summarizing the high and low bid quotations for the Company's common stock during the portion of its last two fiscal years that there has been a trading market.

<u>Summary of Quarterly High and Low Price of Common Stock in 2000</u>

QUARTER	HIGH BID	LOW BID
2nd Quarter 2000	$5.00	$0.75
3rd Quarter 2000	$1.062	$0.28
4th Quarter 2000	$1.00	$0.312

The above table is based on Over-The-Counter quotations. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions, and may not represent actual transaction. All historical data was obtained from the cnbc.com and the quick and reilly.com web sites.

As of March 31, 2001, there were 2,450 owners of record of our common stock.

We have never paid any cash dividends. The payment of dividends, if any, in the future is within the discretion of our Board of Directors, and will depend upon our earnings, capital requirements and financial condition, and other relevant factors. Management does not expect to declare dividends in the foreseeable future.

Sales of Unregistered Securities

Pursuant to the Merger Agreement with Spherus, in March 2000, we issued 15,693,581 shares of restricted Common Stock to the former stockholder of Spherus. We also issued 1,000,000 shares of restricted Common Stock to Tampa Bay Financial, Inc., as compensation for financial consulting services in connection with the merger. Such shares were issued to a limited number of sophisticated investors, and we believe that such issuance was exempt from registration under Section 4(2) of the Securities Act of 1933.

Additionally, in March 2000, we issued 4,500,000 shares of restricted Common Stock to Catalyst Communications, Inc., in consideration of a 17-acre tract of undeveloped land in Apex, North Carolina valued at $2,000,000.

On October 6, 2000, we issued 1,000,000 shares of restricted Common Stock to two employees in accordance with the terms of their Employment Agreements. Such shares were issued to a limited number of sophisticated investors, and we believe that such issuance was exempt from registration under Section 4(2) of the Securities Act of 1933. On October 27, 2000, we issued 1,495,750 shares of restricted Common Stock in connection with the acquisition of Children's Heroes.com. Such shares were issued to a limited number of sophisticated investors, and we believe that such issuance was exempt from registration under Section 4(2) of the Securities Act of 1933 and under Rule 505 promulgated under such Act.

On December 5, 2000, we issued 400,000 shares of restricted Common Stock to two consulting firms in exchange for performance of management and financial consulting services. Such shares were issued to a limited number of sophisticated investors, and we believe that such issuance was exempt from registration under Section 4(2) of the Securities Act of 1933.

Item 6. Management's Discussion and Analysis or Plan of Operation.

The following discussion should be read in conjunction with the financial data appearing elsewhere in this report.

Liquidity And Capital Resources

On December 4, 2001, we filed for protection under chapter 11 of the Bankruptcy Code. On December 19, 2001, we filed a Current Report on Form 8-K describing such filing in greater detail.

As of March 20, 2002, we had no cash, a working capital deficit of approximately $14 million and a stockholders deficit of approximately $14 million. These deficits continue to increase while we develop and market our products. We have paid certain expenses and notes through the issuance of common stock. Our continuation as a going concern is dependent upon our ability to obtain additional working capital. If adequate financing is not available or is not available on acceptable terms, our ability to meet our capital requirements may be significantly limited and could have a material adverse effect on us and ultimately could impair our ability to continue as a going concern.

At December 31, 2000 we were owed approximately $8.9 million related to our contract with MRESA. Receipt of this amount is uncertain and we currently deem this receivable to be uncollectible. Although we may continue to pursue this receivable, there is no assurance that we will be successful in these efforts with respect to this matter.

Results of Operations

Our revenues decreased to $6,437,415 for the year ended December 31, 2000 from $20,097,969 for the year ended December 31, 1999. This decrease is due to the fact that fewer schools enrolled in the Company's program in Year 2 of our three-year contract with our current customer, MRESA. We also have not yet submitted additional invoices for additional work to be performed in Year 2, pending the outcome of an audit of MRESA by Arthur Andersen, LLP, and the determination by both the Federal Communications Commission ("FCC") and the SLD as to whether or not the MRESA project shall continue, and under what terms and conditions.

Our current customer is MRESA, an administrative services agency of the Georgia Department of Education. The MRESA jurisdiction covers more than 11 school districts, 13 and nearly 750 schools. Our contract with MRESA was executed in March 1999, and we began performance thereunder in August 1999. The contract continues for a three-year period. As of December 31, 1999, we had completed Year 1 of the three Years under this contract and had installed our services at 192 schools. All invoices and installations for Year 1 were approved by MRESA. We began performance on Year 2 of our contract with MRESA in early May 2000. Lynxus, Inc. ("Lynxus"), our main contractor at that time, was legally responsible for all performance under the contract, including the procurement and installation of all equipment. We are currently seeking additional customers for our school products and if we are able to obtain approval and financing for our plan of reorganization, we believe that we can expand into a number of states and school districts.

In August 2000, Arthur Andersen, LLP, began an audit of MRESA. The MRESA contract is currently funded by the SLD. This is a non-profit entity under the jurisdiction of the Federal Communications Commission ("FCC"), that administers funds pursuant to the Federal Telecommunications Act of 1996. The program under which the SLD provides funding to MRESA requires a 10% to 50% matching commitment for each school from private or local funds. The audit is part of an ongoing program integrity process initiated by the SLD to ensure that applicants to and vendors (beneficiaries) of the E-rate program comply fully with all FCC and SLD program guidelines, rules and regulations. A number of beneficiaries of the SLD program are audited annually. The determination of which beneficiaries are audited is done both randomly and based on the size of the beneficiary's award. We, as the service provider of the contract, are also being audited as part of this process. As of the date of this report, we have invoiced a total of $3,595,647.60 for services performed under our contract for Year 2 of this program to the SLD, with all invoices being approved by MRESA. As of the date of this report, all of such amount remains unpaid by the SLD.

Additionally, in October 2000, we purchased substantially all of the assets of Children's Heroes.com, Inc. ("Children's Heroes"). The aggregate purchase price for the assets of Children's Heroes was 235,000 shares of our common stock. We also issued approximately 1,260,750 shares of our common stock to certain creditors of Children's Heroes, Inc., a Washington corporation, and an affiliate of Children's Heroes, in consideration for becoming a beneficiary of certain releases provided by the creditors to Children's Heroes. With the purchase of Children's Heroes, we intended to deploy a nationwide grassroots and on-line marketing system aimed at K-12 fundraising and developing Internet educational tools.

As part of the Children's Heroes transaction, we acquired certain licensing agreements with Frequent Friends.com, Inc. pursuant to which Frequent Friends.com was to provide software in connection with the Children's Heroes program. We have received from Frequent Friends.com, Inc. a purported notice of default due to non-payment 14 of certain licensing fees under such agreements. We have suspended performance under the agreements due to Frequent Friends.com's failure to perform under the Agreement.

Our total cost of sales decreased to 7,016,998 for the year ended December 31, 2000 from $18,091,538 for the same period of 1999. The decrease is due to the smaller number of schools billed for Year 2 of the MRESA contract. Our expenses increased to $10,275,303 for the year ended December 31, 2000 from $6,168,685 for the same period in 1999. This is due to increased bad debt expense, an increase in payroll and consulting fees, as well as software license and development fees, subcontractor fees, and greater travel and general expenses, in order to implement the Children's Heroes business model and launch the Children's Heroes product and service. Our bad debt expense increased by

$1,251,851 to $5,164,034 in 2000 from $3,912,183 in 1999 as a result of uncertainties in the collectibility of receivables related to the MRESA project. Our salary expense increased to $2,664,779 from $1,424,860 due primarily to operational expansion and the deployment of the Children's Heroes product and service. As of March 16, 2001, we reduced the salaries of numerous employees and consultants in order to lower payroll expenses and conserve cash flow. Our legal and accounting expenses increased to $540,932 from $60,158 due to litigation described in Item 3. Legal Proceedings.

As a result of the foregoing, our net loss increased by $6,692,632 to $10,854,886 in 2000 from $4,162,254 in 1999.

Item 7. Financial Statements.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Heroes, Inc.:

We have audited the accompanying balance sheets of Heroes, Inc. (the "Company") as of December 31, 2000 and 1999, and the related statements of operations, stockholders' deficit 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 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 audits 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Notes 1 and 2 to the financial statements, the Company filed for protection under Chapter 11 of the U.S. Bankruptcy Code in December 2001, is having difficulty in meeting its current obligations, and will require a significant amount of capital and/or debt financing to proceed with its business plan. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

KINGERY, CROUSE & HOHL P.A.

March 25, 2002
Tampa, FL

HEROES, INC.
December 31, 2000 and 1999

ASSETS

	2000	1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 70,268	$ 100
Accounts receivable (less allowance for doubtful accounts of $8,859,617 and $3,912,183, respectively)	-	69,212
Other receivables	36,145	22,808
Employee advances	5,025	2,000
Refundable deposits	46,572	4,380
PrinVest Corp. escrow for OneWeb	-	205,000
Prepaid maintenance and training costs	-	224,000
Deferred financing costs	-	45,833
Other current assets	48,222	-
Total Current Assets	206,232	573,333
EQUIPMENT (less accumulated depreciation of $9,465 and $1,065, respectively)	269,669	4,258
OTHER ASSETS:		
Other assets	100	5,116
Prepaid maintenance and training costs - long-term	-	415,997
Total Other Assets	100	421,113
Total Assets	$ 476,001	$ 998,704

(Continued)

The accompanying notes are an integral part of these financial statements.

HEROES, INC.

BALANCE SHEETS
December 31, 2000 and 1999

LIABILITIES AND STOCKHOLDERS' DEFICIT

	2000	1999

CURRENT LIABILITIES:		
Line of credit	$ 3,131,190	$ -
Accounts payable and accrued expenses	7,082,892	3,859,734
Accrued compensation	185,174	665,032
Deferred maintenance and training revenue	224,000	224,000
Total Current Liabilities	10,623,256	4,748,766
DEFERRED MAINTENANCE AND TRAINING REVENUE - LONG-TERM	191,997	415,997
STOCKHOLDERS' DEFICIT:		
Common stock 500 million shares authorized, $.001 par value, 27,687,162 and 10,543,581 shares issued and outstanding, respectively	35,840	27,687
Paid-in capital	4,673,540	-
Deficit	(15,048,632)	(4,193,746)
Total Stockholders' Deficit	(10,339,252)	(4,166,059)
Total Liabilities and Stockholders' Deficit	$ 476,001	$ 998,704

The accompanying notes are an integral part of these financial statements.

HEROES, INC.

STATEMENTS OF OPERATIONS
For The Years Ended December 31, 2000 and 1999

	2000	1999
REVENUES:		
Local school installations	$ 6,196,383	$ 19,532,867
Training revenue	224,000	-
Network operations center	-	529,064
Other income	17,032	36,038
Total Revenues	6,437,415	20,097,969
DIRECT COSTS:		
Local school installations and training	6,953,105	17,606,527
Network operations center	22,745	452,792
Other	41,148	32,219
Total Direct Costs	7,016,998	18,091,538
GROSS PROFIT (LOSS)	(579,583)	2,006,431
EXPENSES:		
Assignment fees	-	129,075
Bad debt expense	4,947,434	3,912,183

Consulting	523,248	-
Depreciation	54,233	230,232
Impairment of investment in Sanswire.net, LLC	216,600	-
Interest and other bank fees	398,547	186,335
Legal and accounting	540,932	60,158
Marketing fees	131,827	18,297
Payroll taxes	71,000	41,867
Rent	67,061	49,501

(Continued)

The accompanying notes are an integral part of these financial statements.

HEROES, INC.

STATEMENTS OF OPERATIONS
For The Years Ended December 31, 2000 and 1999

	2000	1999
Salaries	$ 2,664,779	$ 1,424,860
Software license and development	129,050	-
Telephone	67,062	63,030
Travel	234,524	9,442
Other expenses	229,006	43,705
Total Expenses	10,275,303	6,168,685
LOSS BEFORE PROVISION FOR INCOME TAXES	(10,854,886)	(4,162,254)
PROVISION FOR INCOME TAXES	-	-
NET LOSS	$(10,854,886)	$ (4,162,254)
NET LOSS PER SHARE:		
Basic and Diluted	$ (0.34)	$ (0.15)
SHARES USED IN COMPUTING NET LOSS PER SHARE:		
Basic and Diluted	32,038,802	27,687,162

The accompanying notes are an integral part of these financial statements.

HEROES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
For The Years Ended December 31, 2000 and 1999

	Common Stock		Paid-in		
	Shares	Amount	Capital	Deficit	
BALANCE at January 1, 1999	27,687,162	$27,687	$ -	$ (31,492)	$
Net loss	-	-	-	(4,162,254)	(
BALANCE at December 31, 1999	27,687,162	27,687	-	(4,193,746)	(
Conversion of note payable by Spherus shareholders	-	-	250,000	-	
Excess liabilities acquired in the Penn-Akron Merger	-	-	(800)	-	
Cash received in merger with Spherus Technologies, Inc.	-	-	494,096	-	
Other issuance of common stock for cash	4,500,000	4,500	1,995,500	-	
Issuance of common stock for acquisition of Children's Heroes	1,495,750	1,496	(1,496)	-	
Issuance of common stock to reserve account	687,500	687	(687)	-	
Issuance of common stock for services	1,469,834	1,470	1,936,927	-	
Net loss	-	-	-	(10,854,886)	(1
BALANCE at December 31, 2000	35,840,246	$35,840	$4,673,540	$(15,048,632)	$(1
	==========	=======	==========	============	===

The accompanying notes are an integral part of these financial statements.

HEROES, INC.

STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2000 and 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 1,318,593	$ 16,121,978
Cash paid to subcontractors, vendors and employees	(6,251,353)	(15,784,056)
Interest received	-	5,018
Interest paid	-	(69,335)
Net Cash Provided By (Used In) Operating Activities	(4,932,760)	273,605

CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in Sanswire.net, LLC	(200,000)	-
Acquisition of equipment	(273,811)	(5,323)
Net Cash Used In Investing Activities	(473,811)	(5,323)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in line of credit	2,732,643	-
Proceeds from note payable to stockholder	250,000	-
Proceeds from issuances of common stock	2,494,096	-
Deferred financing costs paid	-	(275,000)
Net Cash Provided By (Used In) Financing Activities	5,476,739	(275,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	70,168	(6,718)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	100	6,818
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 70,268	$ 100

(Continued)

The accompanying notes are an integral part of these financial statements.

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HEROES, INC.

STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2000 and 1999

RECONCILIATION OF NET LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES

	2000	1999
Net loss	$ (10,854,886)	$ (4,162,254)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	4,947,434	3,912,183
Depreciation	54,233	230,232
Issuance of common stock for services	1,938,397	-
Write off of investment in Sanswire.net, LLC	216,600	-
Cash flows resulting from changes in:		
Accounts receivable	(4,878,223)	(3,970,973)
Prepaid maintenance costs	639,997	(639,997)
Escrow for OneWeb	205,000	(205,000)
Other assets	(118,361)	(24,188)
Accounts payable	3,222,358	3,828,481
Accrued expenses	(81,310)	665,124
Deferred maintenance and training revenues	(224,000)	639,997
Net Cash Provided By (Used In) Operating Activities	$ (4,932,760)	$ 273,605

NONCASH INVESTING AND FINANCING TRANSACTIONS

During the year ended December 31, 2000 a $250,000 note payable to a stockholder was converted to 500 shares of Spherus common stock prior to the merger.

During the year ended December 31, 2000, the Company issued 1,495,750 shares of common stock as consideration for the purchase of Children's Heroes, Inc.

During the year ended December 31, 2000, the Company issued 687,500 shares of common stock to a reserve account.

The accompanying notes are an integral part of these financial statements.

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HEROES, INC.

NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2000 and 1999

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Heroes, Inc. (we, us, our) formerly known as Penn-Akron Corporation (Penn-Akron) is in the business of providing turnkey installations of an internet-based video distribution and multimedia network to school districts primarily in metropolitan Atlanta, Savannah and Brunswick, Georgia.

On March 13, 2000, we changed our domicile from the state of Delaware to Nevada and changed our authorized common capital stock from 10,000,000 shares with a par value of $0.01 to 100,000,000 shares with a par value of $.001. On March 24, 2000, we acquired all the outstanding stock of Spherus Technologies, Inc. (Spherus), in a stock for cash and stock merger, accounted for as a purchase transaction whereby Spherus was deemed to be the acquirer. The stockholders of Spherus received 17,143,581 shares of our common stock, and our shareholders retained 10,543,581 shares of our common stock. Immediately after the acquisition, the former stockholders of Spherus owned over 50% of our outstanding shares.

The financial statements for 1999 include the accounts of Spherus only. At the date of merger, we had $800 of liabilities and ($800) in equity consisting of $942,469 in paid in capital and ($943,269) in retained earnings (deficit). We had no activity for the 12 months prior to the merger.

On September 24, 2001, we filed a certificate of amendment to our Articles of Incorporation to increase the number of authorized shares from 100,000,000 to 500,000,000.

As a result of these matters, all references to the number of shares and par value in the accompanying financial statements and notes thereto have been adjusted to reflect the merger with Spherus and changes in the authorized number of shares of our common stock and its par value as though all such changes had been completed as of January 1, 1999.

On October 27, 2000, we purchased the assets, consisting of contracts, service agreements, licensing agreements, marketing and sales agreements and other intellectual property, of Children's Heroes, Inc. (CHI) through the issuance of 1,495,750 shares of our common stock to former owners and creditors of CHI. Total liabilities of CHI were $235,100 and their net loss since inception was $235,100, CHI had no revenue prior to the acquisition. The CHI division earns a rebate for fundraising through Internet E-commerce and purchases at bricks and mortar merchants. We have expensed all costs incurred in developing the marketing plan for the CHI business.

On December 4, 2001, we filed for protection under Chapter 11 of the U.S. Bankruptcy Code.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us 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

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statements. The reported amounts of revenues and expenses during the reporting period may be affected by the estimates and assumptions we are required to make. Estimates that are critical to the accompanying financial statements include the appropriate level of allowance for doubtful accounts, which can be significantly impacted by future events. Actual results could significantly differ from our estimates.

Revenue for the installation at each participating school is recorded when each phase of the installation project is complete. The contract calls for initial training, maintenance and support of each school for 36-months from installation. Revenue and expense related to the training, maintenance and support was recognized ratably over the term of the contract.

Equipment is stated at original cost. Depreciation is provided using the straight-line method over the estimated useful lives of three to five years.

We compute loss per share in accordance with SFAS No. 128 "Earnings per Share" (SFAS No. 128) and SEC Staff Accounting Bulletin No. 98 (SAB 98). Under the provisions of SFAS No. 128 and SAB 98, basic net loss per share is computed by dividing the net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of common and common equivalent shares outstanding during the period. There were no common equivalent shares outstanding during the year ended December 31, 1999. Common equivalent shares outstanding as of December 31, 2000, which consist of contingent shares and stock options issued to certain shareholders, have been excluded from diluted net loss per common share calculations because they are anti-dilutive. Accordingly, basic and diluted net per share are identical as of December 31, 2000 and 1999.

We compute income taxes in accordance with Financial Accounting Standards Statement No. 109 "Accounting for Income Taxes" (SFAS 109). Under SFAS 109, deferred taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Also, the effect on deferred taxes of a change in tax rates is recognized in income in the period that included the enactment date. Temporary differences between financial and tax reporting arise primarily from the use of different methods to recognize bad debt expense.

Advertising costs are expensed as incurred.

We account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Compensation cost for stock options, if any, is measured as the excess of the quoted market price of our stock at the date of grant over the amount an employee must pay to acquire the stock. Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation,"

established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. We have elected to use the intrinsic value method of accounting as described above, and have adopted the disclosure requirements of SFAS No.
123.

2. GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have a deficit of approximately $15 million at December 31, 2000 and anticipate incurring net losses for the foreseeable future. In addition, we will require (1) the approval of the United States Bankruptcy Court and (2) a significant amount of capital to proceed with our business plan. Accordingly, our ability to continue as a going concern is dependent upon our ability to emerge from bankruptcy proceedings and to secure an adequate amount of capital, through either additional equity funding or loans with appropriate repayment terms, to finance our planned principal operations and/or implement our business plan. In addition, our plans include devoting appropriate resources to obtain a quick and favorable resolution of the matters related to the contract discussed in Note 3. However, there is no assurance that we will be successful in our efforts with respect to these matters. These factors, among others, indicate that we may be unable to continue as a going concern for a reasonable period of time.

Our financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

3. CONTRACT WITH METROPOLITAN REGIONAL EDUCATIONAL SERVICE AGENCY

We have a contract with Metropolitan Regional Educational Service Agency (MRESA) to provide a turnkey installation of an internet-based satellite video distribution and multimedia system (MRESAnet 2000 Project) in up to approximately 700 schools in 14 school districts primarily in the Atlanta Metropolitan area and surrounding counties, plus Savannah and Brunswick.

The funds for this project are provided from a Federal program administered through the Schools and Library Division (SLD) of the Universal Service Administrative Company. The program requires a matching commitment of 10-80% for each school from private or local funds. The agreement is automatically renewed for subsequent phases of the MRESAnet 2000 Project to the extent that SLD funding or other alternative funding remains available to fund the financial requirements of this program. We received a funding letter from the SLD for Year/Phase 1 and Year/Phase 2.

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A summary of the contract terms for each phase is as follows:

	December 31, 2000 (Year/Phase 2)	December 31, 1999 (Year/Phase1)
Number of approved schools	71	192
Completed installations	-	192
Installations partially complete	71	-
Approximate fee for each school	$174,000	$105,000

Approximate gross revenues	$12 million	$20 million

The SLD has stopped payments for the contract pending resolution of these and other matters. At December 31, 2000, accounts receivable was made up as follows:

MRESA	$2,653,368	Year 1 matching funds
	$2,529,020	Year 2 matching funds
SLD	$81,581	Year 1 installations
	$3,595,648	Year 2 installations

The MRESA receivable relates to matching obligations to be paid from contributions or other local funds. If MRESA does not raise the matching funds for Years 1 and 2, the terms of the SLD grant may not be met and the SLD may not fund some part of or all of the $3.6 million receivable, and may require refund of all Year 1 money paid to us of approximately $18 million. In 2000 and 1999, 58% and 88%, respectively, of revenues were funding received from the SLD.

Because of the uncertainties related to the MRESAnet 2000 Project matching requirements, and the fact that related accounts receivable have not been collected as of the date we filed for protection under Chapter 11 of the Bankruptcy Code, a reserve has been established for our receivables of $8,859,617 and $3,912,183 at December 31, 2000 and 1999, respectively.

4. CONTINGENCIES

In addition to the contingent liability of approximately $18 million referred to in Note 3, the following contingencies existed at December 31, 2000:

On September 7, 2000, one of our subcontractors, Lynxus, Inc. (Lynxus), filed suit against us in the United States District Court for the Northern District of Georgia claiming that they are entitled to approximately $483,000 plus interest. The claim arises out of the termination of a network implementation agreement between us and MRESA, whereby we had subcontracted with Lynxus, Inc. to coordinate and manage the delivery, installation and testing requirements relating to the MRESA contract for all schools in 11 out of the 14 school districts for Years 1 and 2. In September 2000, we terminated our

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subcontract with Lynxus. As a result, we have expensed certain prepaid maintenance and training services owed to the Company at December 31, 2000 of approximately $511,000. We have denied liability and have asserted a counterclaim for the damages we have suffered as a result of breach of the subcontract by Lynxus. Because of this and because the litigation is in the discovery stage, the ultimate outcome of this matter cannot be determined. Accordingly, no provision for any loss that may result upon resolution of this litigation has been made in the accompanying financial statements.

In addition, accounts payable at December 31, 2000, includes a payable to Lynxus for $5.8 million that management believes may not be due to Lynxus if the matching funds are not obtained by MRESA. The outstanding invoices detailed in the lawsuit by Lynxus against us are included in this $5.8 million.

We are also being sued by a stockholder who was a former employee for approximately $100,000 for termination of his employment contract. We have accrued for the compensation element of the claim in our financial statements.

The claim also seeks redemption of his common stock for $1 million. We believe that the redemption claim against us is without merit. Due to our Chapter 11 petition filing on December 4, 2001, action on this lawsuit has been stayed. Because of this and because the ultimate outcome of this matter is not reasonably determinable, we have not accrued for any costs or expenses that may arise from the redemption of the common stock.

5. LINE OF CREDIT

At December 31, 1999, we had an $11,000,000 line of credit with PrinVest Corp. Advances under the line accrued interest at prime plus 5.75% per annum, and were secured by substantially all of our assets. Loan origination fees of $275,000 were capitalized and amortized over the life of the agreement. There was no amount outstanding on this line of credit at December 31, 1999.

We signed a new agreement with PrinVest Corp. on June 7, 2000, for a maximum line of credit of $3,500,000. Interest is payable at prime plus 2% per annum on the outstanding balance. We received notice on January 5, 2001, that we are deemed by PrinVest to be in default under this agreement due to failure to remit payments when due. The balance at December 31, 2000 of $3,131,190 was accelerated and became immediately due on January 5, 2001. Interest and servicing fees continue to accrue, including additional default interest in the amount of 4% per annum.

6. INCOME TAXES

The provision for income taxes for the years ended December 31, 2000 and 1999, is made up of the following:

	2000	1999
Current	$ -	$ -
Deferred	(5,693,000)	(1,881,000)
Change in valuation reserve	5,693,000	1,881,000
Provision for income taxes	$ -	$ -

At December 31, 2000, we had approximately $6,100,000 of unused operating tax loss carryforwards. These carryforwards expire at various times through the year ended December 31 2020, however because our bankruptcy proceedings, changes in control and various other matters utilization of the income tax loss carryfoward is not assured. As such a valuation reserve in an amount equal to the net deferred tax asset has been provided.

At December 31, 2000 and 1999, we had no deferred tax liabilities and our deferred tax assets consisted of the following:

	2000	1999
Deferred tax asset - noncurrent:		
Operating loss carryforward	$ 2,383,000	$ 360,000
Reserves	3,670,000	1,521,000
Valuation reserve	(6,053,000)	(1,881,000)
	$ -	$ -

7. EMPLOYMENT AGREEMENTS

At December 31, 2000, we were obligated under employment agreements which required minimum base salaries of approximately $540,000 per year through October 2002 and provided for grants of 1,019,834 shares of common stock and options to purchase 6,370,000 shares of common stock over various exercise prices, dates and vesting periods.

At December 31, 1999, there were employment agreements which provided for performance bonuses to 3 employees/stockholders in the amount of the greater of $140,000 or 3% of earnings before interest, taxes, depreciation and amortization (EBITDA), to be paid by the end of calendar year 1999. In addition, we agreed to pay another employee/stockholder a bonus of $220,000 for the year ended December

31, 1999. We accrued $640,000 for these agreements at December 31, 1999. At December 31, 2000, approximately $45,000 of this amount is left to be paid.

8. STOCK TRANSACTIONS, GRANTS AND OPTIONS

On April 10, 1987, we completed a two for one reverse common stock split of selected shares. The available records have been insufficient to verify the completion of the stock split. Because of various errors and omissions, we have issued 687,500 shares into a reserve account to be used in the event of any valid claims from the possible errors outlined above. We believe these shares of 687,500 will be adequate to cover any possible future claims.

As part of the merger with Spherus, certain Spherus stockholders were granted additional shares of stock upon the accomplishment of certain earn out goals. The term of this Earn Out is for five fiscal years beginning January 1, 2000. This Earn Out provides that we shall issue four additional shares of our common stock among the eligible stockholders for every dollar of annual income (as defined in the agreement) achieved by us for each such fiscal year in excess of the amount necessary to earn $0.15 per share for us in the year. No additional shares relating to this agreement have been earned through December 31, 2000.

We have a stock option plan that provides for the granting of stock options to officers and key employees. The objectives of this plan includes attracting and retaining the best personnel, providing for additional performance incentives, and promoting our success by providing employees the opportunity to acquire common stock. We are authorized to grant options for up to 11,264,304 common shares under the 2000 Equity Incentive Plan, of which 6.3 million have been granted. Options for 3.7 million shares were issued at an exercise price of $.11 per share, which is less than the $.40 per share fair value at the date of grant. These options vest 12.5% per quarter for 2 years. We recognized $1,069,300 of compensation expense related to these options in 2000 based on the difference between the fair value and the option exercise price. The remaining options which were granted at prices which are either equal to or above the fair value of the stock on the date of grant, vest over 2, 3, or 5 year period, and expire ten years after the grant date.

The status of our stock options are summarized below:

	Number of Shares	Weighted Average Exercise Price

Outstanding at December 31, 1999	-	$ -
Granted	6,300,000	0.53
Exercised	-	-
Canceled	-	-
Outstanding at December 31, 2000	6,300,000	$ 0.53
	=========	==========
Options exercisable at:		
December 31, 2000	225,000	$ 0.68
December 31, 2001	2,550,000	0.31
December 31, 2002	2,550,000	0.31
December 31, 2003	300,000	1.36
December 31, 2004	337,500	1.80
December 31, 2005	337,500	1.80

We account for our stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" under which no compensation cost for stock options is recognized for stock option awards granted at or above fair market value. Accordingly, other than the 3.7 million options mentioned above, no compensation cost has been recognized for stock options, since all options were granted at an exercise price equal to or greater than the fair market value of the common stock at the date of grant. Had our compensation expense for stock-based compensation plans been determined based upon fair values at the grant dates for awards under this plan in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," our net earnings and earnings per share would have been reduced to the pro forma amounts indicated below.

	2000	1999
Net loss		
As reported	$ (10,859,386)	$ (4,162,254)
Pro Forma	(10,859,386)	(4,162,254)
Loss per share		
As reported	$ (0.34)	$ (0.15)
Pro Forma	$ (0.34)	(0.15)

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The weighted average fair value of options granted during 2000 estimated on the date of grant using the Black-Scholes option-pricing model was $.42. The fair value of options granted is estimated on the date of grant using the following assumptions: dividend yield of 0%, expected volatility of 167%, risk-free interest rate range of 5.75% to 6.0% depending on grant date, and an expected life ranging from 2 - 5 years. Summary information about our stock options outstanding at December 31, 2000, is as follows:

Range of Exercise Price	Outstanding at 12/31/00	Weighed Average Contractual Periods In Years	Weighed Average Exercise Price	Excercisable at 12/31/00	Weigh Avera Exerc
$0.11-$0.43	4,500,000	2.00	0.17	-	$
$0.68-$1.87	1,800,000	3.38	1.44	225,000	0.
$0.11-$1.87	6,300,000	2.39	0.53	225,000	$ 0.

9. INVESTMENT

We invested $200,000 in a promissory note of Sanswire.net, LLC, an organization with which we were considering doing business. Interest accrued at 10% per annum. On December 31, 2000, we formally demanded payment of the $200,000 plus accrued interest of $16,600. We have fully reserved for the loss on this investment.

10. LEASE OBLIGATION

During 2000, we entered into a lease for office space in Virginia. This lease began on October 1, 2000, and was scheduled to expire on November 30, 2002. In June 2001, we terminated this lease and forfeited our $46,572 deposit. Subsequent to the lease termination, we have operated from office space provided to us by our officers for no consideration. The minimum lease payments under this lease were as follows:

2001	$ 138,459
2002	131,641
	$ 270,100

11. OTHER SUBSEQUENT EVENTS (UNAUDITED)

Subsequent to December 31, 2000, the following significant transactions and/or events occurred:

Litigation

On May 31, 2001, Mastermind Marketing filed a civil action in the State Court of Fulton County, Georgia. On September 19, 2001 Mastermind Marketing was awarded a default judgment in the amount of $169,246.41, including interest, for the preparation of presentations, marketing strategies, and other promotional programs and delivered intellectual property and other products, services and expenses. Because the conditions giving rise to the litigation did not exist at December 31, 2000, no liabilities have been recorded in the accompanying financial statements as a result of these matters.

Financing

On January 10, 2001, we offered 4 million units, each unit consisting of one share of common stock, and one warrant in a private placement memorandum at an offering price of $.25 per unit. The warrants entitle the holders to purchase one share of common stock for each warrant held at an exercise price of $.50 per share until January 15, 2004. As of March 20, 2002, 3,320,000 units have been sold for $830,000.

We issued and defaulted on three promissory notes for approximately $1.2 million. These notes accrue interest at 10% per annum and are due on demand, but no later than November 23, 2001. The note holder has the option to convert all or a portion of the note into shares of our common stock at $.01 per share. If we plan to payoff all or part of the principal amount, we shall give the note holder 20 days notice of our intention. During this 20-day period, the note holder may elect to convert the amount to be paid by us into shares at the Conversion Price.

Stock transactions

During 2001, we issued 800,000 warrants for consulting services which entitles the holders to purchase one share of common stock for each warrant held at exercise prices ranging from $.40 - $.50 per share. As of March 20, 2002 all the warrants have been fully vested.

During 2001, 900,000 options to purchase common stock expired due to the termination of two employees. In addition, during 2001 we issued approximately 60,000,000 shares to employees and consultants for compensation and reimbursement of operating expenses.

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

On December 10, 2001, we discharged Windham Brannon, P.C. as principal independent accountant. The decision to change principal accountant was due to the fact that we filed a voluntary petition for relief under chapter 11 of the bankruptcy code, and Windham Brannon, P.C., is now a pre-petition creditor. From the engagement of Windham Brannon, P.C. on July 6, 2000 to their discharge on December 10, 2001, there were no disagreements on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreement, if not solved to their satisfaction, would have caused them to make reference in connection with their opinion to the subject matter of the disagreement. Windham Brannon, P.C.'s reports on the financial statements of the Company as of and for the year ending December 31, 2000 did not express an opinion due to a significant uncertainty related to the valuation of certain assets and the completeness of certain liabilities. In addition, there was an explanatory paragraph related to our ability to continue as a going concern. Windham Brannon, P.C.'s reports on the financial statements of the Company as of and for the year ending December 31, 1999 qualified their opinion due the fact that they were unable to confirm a certain receivable and satisfy themselves as to the carrying value of that receivable. In addition, there was an explanatory paragraph related to our ability to continue as a going concern.

On December 14, 2001, our Board of Directors approved the engagement of Kingery, Crouse & Hohl, P.A., as our principal independent accountant. The engagement will begin with our third quarter 2001 financial statements. Through December 14, 2001, neither we nor anyone on our behalf consulted Kingery, Crouse & Hohl, P.A. regarding (i) the application of accounting principles to any transaction, either completed or proposed, or (ii) the type of audit opinion that might be rendered by Kingery, Crouse & Hohl, P.A. on our financial statements.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.

<u>Management</u>

Members of our Board of Directors are elected by our shareholders at each annual meeting of shareholders, to hold office until their successors are elected and qualified. The executive officers are appointed by our Board of Directors and hold office at the pleasure of the Board. Executive officers devote their full time to the affairs of the Company.

There are no arrangements or understandings whereby the directors or the executive officers of the Company are elected, and there are no family relationships between any of such persons.

The following table sets forth, as of March 31, 2002, certain information regarding the directors and executive officers of the Company:

Name	Age	Position
Amer A. Mardam-Bey	40	Chief Executive Officer, President and Director
Tammy L. Lambert	33	Chief Operations Officer and Director
Carl L. Smith	59	Director

Set forth below is certain information concerning each of the directors and executive officers of the Company. Unless otherwise indicated, the principal occupation listed for each individual has been his principal occupation for the past five years.

AMER A. MARDAM-BEY, CHIEF EXECUTIVE OFFICER, PRESIDENT AND DIRECTOR. Since October 2000, Amer A. Mardam-Bey has served as our President, Chief Executive Officer and a director. Prior to joining Heroes, Mr. Mardam-Bey co-founded Drawbridge, LLC, a professional management services firm, specializing in assisting companies in their early growth stages. At Drawbridge from 1999 to 2000, Mr. Mardam-Bey advised domestic and international high technology and educational companies in their organizational, corporate governance, financial, marketing and sales efforts. Prior to founding Drawbridge, Mr. Mardam-Bey co-founded and served as Chief Operating Officer for ATCALL, Inc., a long distance reseller and prepaid services provider, from 1995 to 1999.

TAMMY L. LAMBERT, CHIEF OPERATIONS OFFICER AND DIRECTOR. Since October 2000, Tammy L. Lambert has served our Chief Operating Officer. Prior to joining Heroes, Ms. Lambert co-founded Drawbridge, LLC, a professional management services firm, specializing in assisting companies in their early growth stages. At Drawbridge from 1999 to 2000, Ms. Lambert advised domestic and international high technology and educational companies in their sales, marketing and

operational efforts. Before founding Drawbridge, Lambert served as Vice President of Operations for ATCALL, Inc., a long distance reseller and prepaid services provider from 1997 to 1999.

CARL L. SMITH, DIRECTOR. Carl Smith has been a director since September 2000. Mr. Smith is an entrepreneur in marketing, sales and business development. Mr. Smith served as the CEO of DNAPrint genomics (and its predecessor in interest) from 1994 to March 2002. During that period, while DNAPrint's predecessor in interest was known as Catalyst Communications, Inc., Catalyst and its subsidiaries filed for protection from creditors under the United States bankruptcy laws. Catalyst emerged from bankruptcy court protection in 1999. Mr. Smith has also served on the Board of Directors of Diversified Resources Group, Inc. from 1994 to 1996 and from April 1999 to present. In 1997, Diversified Resources Group, Inc. and its subsidiaries filed for protection from creditors under the United States bankruptcy laws. It emerged from bankruptcy court protection in July 1999. Mr. Smith also serves on the Board of Directors of American Communications Enterprises, Inc.

On March 26, 2001, Kenneth M. Herman resigned as a director of the Company. Christopher Baker resigned from the Board of Directors on April 11, 2001. Christopher Smith resigned from the Board of Director on September 19, 2001.

Item 10. Executive Compensation.

The following table sets forth the compensation paid by the Company to its executive officers in 2000.

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long Te Compensat
Name and Position	Year (1)	Salary ($)	Bonus ($)	Securities und options
Amer Mardam-Bey Chief Executive Officer	2000	$55,000	$230,000 (2)	2,500,0
Christopher J.S. Baker Chief Financial Officer	2000	$110,000	$ 0	
Kenneth Herman Vice President	2000	$110,000	$ 0	

NOTES:

(1) No named executive officer was employed by the Company prior to the year 2000.
(2) Includes $215,000 paid in the form of 500,000 shares of common stock, valued at $0.43 per sh

The following table sets forth the options granted by the Company to its executive officers in 2000.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Securities underlying options (#)	% of Total Options Granted	Exercise Price ($/Sh)	Market Price on Date of Grant
Amer Mardam-Bey	400,000	6.35%	$0.43	$0.43
Amer Mardam-Bey	2,100,000	33.33%	$0.11	$0.43

All options described herein vest ratably over the 8 calendar quarters beginning October 6, 2000, provided the employee continues to be employed by the Company.

The following table sets forth the aggregate options outstanding at the end of 2000.

AGGREGATED FISCAL YEAR-END OPTION VALUES

Name	Securities underlying unexercised options (#)

	Exercisable/ Unexercisable
Amer Mardam-Bey	625,000 1,875,000

No options were in the money as of the date of this Report.

<u>Employment Agreements</u>

On October 6, 2000, we entered into an employment agreement with Amer A. Mardam-Bey, our chief executive officer. The agreement commenced on October 6, 2000 and expires on October 5, 2002, subject to automatic renewal for successive one-year periods unless either party elects not to renew the agreement. The agreement requires Mr. Mardam-Bey to serve as our chief executive officer and provides for him a base salary of $240,000 per year. In addition, if the performance of the Company and Mr. Mardam-Bey are satisfactory to our board of directors, the agreement provides for payment to Mr. Mardam-Bey of a quarterly cash bonus in the amount equal to 6.25% of his base salary, or $15,000.

In connection with the execution of the employment agreement, we granted to Mr. Mardam-Bey 500,000 shares of our common stock, all of which was vested as of that date. In accordance with the Penn-Akron Corporation Stock Option Plan, we granted to Mr. Mardam-Bey an option to purchase 400,000 shares of our common stock at an exercise price of $0.43 per share. The options vest as to one-eighth of such options at the end of each quarterly period of service under the agreement. In accordance with the Penn-Akron Corporation Stock Option Plan, we granted to Mr. Mardam-Bey an option to purchase 2,100,000 shares of our common stock at an exercise price of $0.11 per share. The options vest as to one-eighth of such options at the end of each quarterly period of service under the agreement. The agreement provides that in the event of a Change of Control (as defined in the Penn-Akron Corporation Stock Option Plan), or in the event that we terminate Mr. Mardam-Bey's employment without cause, the vesting of all such options shall be accelerated.

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The employment agreement prohibits Mr. Mardam-Bey from competing with us for a period of one year after termination of employment. In the event that we terminate his employment without cause and other than as a result of his death or disability, Mr. Mardam-Bey is entitled to all salary and bonus that would have been payable for the remaining term of the contract. In addition, certain terminations by Mr. Mardam-Bey, denominated terminations "for good reason," are deemed to be terminations without cause. Terminations for good reason include reductions in Mr. Mardam-Bey's compensation, material diminution of his authority or duties and relocation of the Company's headquarters from the Washington, D.C. metropolitan area.

On January 1, 2000, the Company entered into an employment agreement with Christopher J.S. Baker, its chief financial officer. Mr. Baker resigned on April 11, 2001, and his employment agreement terminated.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of March 31, 2002 by (i) each person known by the Company to be the beneficial owner of more than five percent (5%) of the outstanding Common Stock; (ii) each director of the Company; (iii) each named executive officer; and (iv) all directors and executive officers of the Company as a group.

Name And Address Of Beneficial Owner (1)	Amount Of Beneficial Ownership	Percent Of Class(2)
Vikki Cook 355 Interstate Boulevard Sarasota, FL 34240	8,387,462	8.5%
Amer A. Mardam-Bey	21,330,611	21.5%
Tammy L. Lambert	16,656,770	16.8%
Carl L. Smith	0	0%
All Officers and Directors as a Group (5 persons)	37,987,381	38.3%

(1) Unless otherwise indicated, address is 1915 B Chain Bridge Rd, Suite 506, McLean, VA 22102

(2) Based on shares of Common Stock outstanding on the date of this report.

Item 12. Certain Relationships and Related Transactions.

In connection with the Merger Agreement with Spherus, in March 2000, we issued 1,000,000 shares of restricted Common Stock to Tampa Bay Financial, Inc. Carl L. Smith, one of our directors, is a director and officer of Tampa Bay Financial, Inc.

In September and November 2000, we paid consulting fees and expenses totaling $76,918 to Drawbridge, LLC, a professional management services firm specializing in assisting companies in their early growth stages. Drawbridge, LLC is controlled by our Chief Executive Officer and President, Amer A. Mardam-Bey, and our Chief Operating Officer, Tammy L. Lambert. The consulting fees and expenses were earned by Drawbridge, LLC prior to the date that Mr. Mardam-Bey and Ms. Lambert joined us as officers.

In December 2000, we granted Bay Forest Limited 200,000 shares of common stock as compensation for management and financial consulting services. Bay Forest Limited is controlled by Ibrahim Mardam-Bey, the brother of our Chief Executive Officer and President, Amer A. Mardam-Bey.

Item 13.Exhibits and Reports on Form 8-K.

(a) Exhibits

3(i).1 Articles of Incorporation (previously filed as Exhibit 3.(i) to the Company's Current Report on Form 8-K, filed April 11, 2000).

3(i).2 Certificate of Amendment to Articles of Incorporation filed December 4, 2000

3(i).3 Certificate of Amendment to Articles of Incorporation filed September 25, 2001.

3(ii) Amended and Restated Bylaws (previously filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, filed on July 31, 2000).

10.1 Financing and Security Agreement between PrinVest Financial Corp. and the Company, executed June 8, 2000 (previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on July 31, 2000).

10.2 Promissory Note, executed June 8, 2000, from the Company to PrinVest Financial Corp. (previously filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on July 31, 2000).

10.3 Obligation to Forward Payments by the Company to PrinVest Financial Corp., executed June 8, 2000 (previously filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed on July 31, 2000).

10.4 Employment Agreement between the Company and Amer A. Mardam-Bey, executed October 6, 2000 (previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2000).

10.5 Employment Agreement between the Company and Tammy L. Lambert, executed October 6, 2000 (previously filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2000).

10.6 Employment Agreement between the Company and Christopher Hutcherson, executed October 27, 2000 (previously filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2000).

10.7 Employment Agreement between the Company and Allen de Castro, executed October 27, 2000 (previously filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2000).

10.8 Employment Agreement between the Company and John C. Schaper, executed October 27, 2000 (previously filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2000).

10.9 Stock Option Agreement between the Company and Amer A. Mardam-Bey, executed October 6, 2000 (previously filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2000).

10.10 Stock Option Agreement between the Company and Tammy L. Lambert, executed October 6, 2000 (previously filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2000).

10.11 Stock Option Agreement between the Company and Christopher Hutcherson, executed October 27, 2000 (previously filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2000

10.12 Stock Option Agreement between the Company and Allen de Castro, executed October 27, 2000 (previously filed as Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2000).

10.13 Stock Option Agreement between the Company and John C. Schaper, executed October 27, 2000 (previously filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2000).-

10.14 Penn-Akron Corporation Equity Incentive Plan, effective as of October 6, 2000 (previously filed as Exhibit 10.11 to the Company's Quarterly Report on

Form 10-Q, filed on November 14, 2000).

10.15 Heroes, Inc. 2001 Executive Equity Compensation Plan (previously filed as Exhibit 10.15 to the Company's Annual Report on Form 10-KSB, filed on April 9, 2001).

10.16 Employment Agreement between the Company and Christopher J.S. Baker, executed January 1, 2000 (previously filed as Exhibit 10.16 to the Company's Annual Report on Form 10-KSB, filed on April 9, 2001).

10.17 Employment Agreement between the Company and Kenneth Herman, executed January 1, 2000 (previously filed as Exhibit 10.17 to the Company's Annual Report on Form 10-KSB, filed on April 9, 2001).

16.1 Letter from Windham Brannon, P.C. to the Securities and Exchange Commission (previously filed as Exhibit 16.1 to the Company's Quarterly Report on Form 10-Q, filed on December 14, 2000).

(b) Reports on Form 8-K. On October 12, 2000, the Company filed an amendment to its Current Report on Form 8-K filed July 12, 2000, reporting a change in principal accountant. On November 2, 2000, the Company filed a Current Report on Form 8-K, reporting (i) the Children's Heroes acquisition (see Item 1 of this Annual Report), (ii) the MRESA audit (see Item 1 of this Annual Report), and (iii) the Lynxus litigation (see Item 3 of this Annual Report).

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Heroes, Inc.

By:/s/Amer Mardam-Bey
Amer Mardam-Bey, President

Date: March 25, 2002

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/Amer Mardam-Bey Amer Mardam-Bey	Chief Executive Officer, Chief Accounting Officer, Director	March 25, 2002

/s/Tammy L. Lambert	Chief Operations Officer,	March 25, 2002

Tammy L. Lambert	Director	
/s/Carl L. Smith Carl L. Smith	Director	March 25, 2002