

FINDEX COM INC
Form 10QSB/A
January 19, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM 10-QSB/A
Amendment No. 4**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended June 30, 2004.

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____.

Commission File Number: 0-29963

FINDEX.COM, INC.

(Exact name of small business issuer as specified in its charter)

| | |
|------------------|---------------------|
| Nevada | 88-0379462 |
| (State or other | (I.R.S. Employer |
| jurisdiction of | Identification No.) |
| incorporation or | |
| organization) | |

| | |
|---------------|------------|
| 11204 | 68154 |
| Davenport | |
| Street, Suite | |
| 100, Omaha, | |
| Nebraska | |
| (Address of | (Zip Code) |
| principal | |
| executive | |
| offices) | |

(402) 333-1900

(Issuer's telephone number, including area code)

NA.

(Former name, former address and former fiscal year, if changed since last report)

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 No**

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. **Yes No**

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 48,619,855 common shares as of January 19, 2006.

Transitional Small Business Disclosure Format (check one): **Yes No**

Explanatory Note

We are filing this Amendment Number 4 to our Quarterly Report on Form 10-QSB for the three and six months ended June 30, 2004 to include, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, the certifications of our Chief Executive Officer and Chief Financial Officer, annexed hereto as Exhibits 31.1, 31.2, 32.1 and 32.2, as well as all of the information as required by Form 10-QSB, in its entirety, for the quarter ended June 30, 2004, to reflect certain issues identified during a regulatory review of our financial statements associated with a certain registration statement filed with the SEC on November 22, 2004 on Form SB-2 and which is pending effectiveness as of the date of this filing of Amendment Number 4 to Form 10-QSB for the quarter ended June 30, 2004.

This Amendment Number 4 to Form 10-QSB for the quarter ended June 30, 2004 does not otherwise change or update the disclosures set forth in the Form 10-QSB as originally filed and does not otherwise reflect events occurring after the filing of the Form 10-QSB. For a description of our business and the risks related to our business, see our Annual Report on Form 10-KSB/A for the year ended December 31, 2004.

TABLE OF CONTENTS

| | Page Number |
|---|------------------------|
| <u>PART I - FINANCIAL INFORMATION</u> | |
| <u>ITEM 1. Financial Statements.</u> | F-1 |
| <u>ITEM 2. Management's Discussion and Analysis or Plan of Operation.</u> | 1 |
| <u>ITEM 3. Controls and Procedures.</u> | 7 |
| <u>PART II - OTHER INFORMATION</u> | |
| <u>ITEM 1. Legal Proceedings.</u> | 8 |
| <u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u> | 8 |
| <u>ITEM 3. Defaults Upon Senior Securities.</u> | 8 |
| <u>ITEM 4. Submission of Matters to a Vote of Security Holders.</u> | 8 |
| <u>ITEM 5. Other Information.</u> | 8 |
| <u>ITEM 6. Exhibits.</u> | 9 |

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS.**

Findex.com, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | June 30, 2004 (Restated) | June 30, 2003 (Restated) |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Accounts receivable, trade | \$ 183,241 | \$ 158,700 |
| Inventory | 161,903 | 320,100 |
| Other current assets | 97,326 | 66,804 |
| Total current assets | 442,470 | 545,604 |
| Property and equipment, net | 63,664 | 78,163 |
| Software license, net | 2,517,538 | 3,021,044 |
| Software development, net | 504,497 | 385,746 |
| Restricted cash | 100,354 | 50,000 |
| Other assets | 93,805 | 49,393 |
| Total assets | \$ 3,722,328 | \$ 4,129,950 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Cash overdraft | \$ 38,990 | \$ 12,125 |
| Notes payable | 89,999 | 749,999 |
| Accrued royalties | 1,203,369 | 1,595,859 |
| Accounts payable, trade | 709,415 | 884,285 |
| Current maturities of long-term notes payable | 175,150 | 59,302 |
| Other current liabilities | 679,252 | 1,236,257 |
| Total current liabilities | 2,896,175 | 4,537,827 |
| Long-term note payable | 65,300 | 18,801 |
| Non-current deferred taxes | 777,774 | 830,381 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock | 51 | 51 |
| Common stock | 23,492 | 19,811 |
| Paid-in capital | 7,227,564 | 7,029,079 |
| Retained (deficit) | (7,268,028) | (8,306,000) |
| Total stockholders' equity | (16,921) | (1,257,059) |
| Total liabilities and stockholders' equity | \$ 3,722,328 | \$ 4,129,950 |

See accompanying notes.

Table of Contents

Findex.com, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-----------------------------------|-------------------|---------------------------------|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| | (Restated) | (Restated) | (Restated) | (Restated) |
| Revenues, net of reserves and allowances | \$ 1,020,885 | \$ 778,634 | \$ 2,653,853 | \$ 1,847,475 |
| Cost of sales | 271,410 | 262,322 | 740,069 | 561,143 |
| Gross profit | 749,475 | 516,312 | 1,913,784 | 1,286,332 |
| Operating expenses: | | | | |
| Sales and marketing | 267,902 | 155,915 | 510,501 | 334,600 |
| General and administrative | 615,895 | 344,269 | 1,171,574 | 814,074 |
| Bad debt provision | --- | --- | 2,500 | --- |
| Depreciation and amortization | 139,187 | 136,902 | 274,639 | 274,002 |
| Total operating expenses | 1,022,984 | 637,086 | 1,959,214 | 1,422,676 |
| Loss from operations | (273,509) | (120,774) | (45,430) | (136,344) |
| Other income | 1,170 | 583,628 | 1,170 | 584,612 |
| Other expenses, net | (17,358) | (22,557) | (31,688) | (37,354) |
| Income (loss) before income taxes | (289,697) | 440,297 | (75,948) | 410,914 |
| Provision for income taxes | (31,011) | 56,616 | (61,322) | 113,232 |
| Net income (loss) | \$ (320,708) | \$ 496,913 | (137,270) | 524,146 |
| Retained (deficit) at beginning of year | | | (7,130,758) | (8,830,146) |
| Retained (deficit) at end of period | | | \$ (7,268,028) | \$ (8,306,000) |
| Net earnings (loss) per share: | | | | |
| Basic | \$ (0.01) | \$ 0.03 | \$ (0.01) | \$ 0.03 |
| Diluted | \$ (0.01) | \$ 0.02 | \$ (0.01) | \$ 0.03 |
| Weighted average shares outstanding: | | | | |
| Basic | 23,276,312 | 19,811,438 | 22,143,875 | 19,811,438 |
| Diluted | 23,276,312 | 20,078,401 | 22,143,875 | 20,069,385 |

See accompanying notes.

Table of Contents

Findex.com, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| Six Months Ended June 30 | 2004 | 2003 |
|--|-------------------|-------------------|
| | (Restated) | (Restated) |
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 2,639,964 | \$ 2,045,624 |
| Cash paid to suppliers and employees | (2,409,585) | (1,861,189) |
| Other operating activities, net | (28,166) | 21,611 |
| Net cash provided by operating activities | 202,213 | 206,046 |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (18,612) | (6,643) |
| Software development costs | (178,049) | (145,666) |
| Website development costs | (31,836) | (21,056) |
| Deposits made | (485) | (50,500) |
| Net cash (used) by investing activities | (228,982) | (223,865) |
| Cash flows from financing activities: | | |
| Payments on line of credit, net | (2,999) | (5,016) |
| Cash overdraft | 38,990 | 12,125 |
| Payments made on long-term notes payable | (50,890) | (27,941) |
| Net cash (used) by financing activities | (14,899) | (20,832) |
| Net (decrease) in cash and cash equivalents | (41,668) | (38,651) |
| Cash and cash equivalents, beginning of year | 41,668 | 38,651 |
| Cash and cash equivalents, end of period | \$ --- | \$ --- |
| Reconciliation of net income (loss) to cash flows from operating activities: | | |
| Net income (loss) | \$ (137,270) | \$ 524,146 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Software development costs amortized | 258,258 | 40,422 |
| Provision for bad debts | 2,500 | --- |
| Stock and warrants issued for services | 44,186 | --- |
| Rebate reserve adjustment | 124,262 | (14,793) |
| Depreciation and amortization | 274,639 | 274,002 |
| Change in assets and liabilities: | | |
| Decrease in accounts receivable | 180,062 | 69,541 |
| Decrease in inventories | 110,697 | 96,600 |
| Decrease in refundable income taxes | --- | 29,148 |
| (Increase) in prepaid expenses | (75,406) | (9,254) |
| (Decrease) in accrued royalties | (204,937) | (534,754) |
| (Decrease) in accounts payable | (174,708) | (187,278) |
| Increase in income taxes payable | 700 | --- |
| Increase (decrease) in deferred taxes | 60,622 | (113,232) |
| Increase (decrease) in other liabilities | (261,392) | 31,498 |
| Net cash provided by operating activities | \$ 202,213 | \$ 206,046 |

See accompanying notes.

F-3

Table of Contents

FindEx.com, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are considered necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements of Findex.com, Inc. included in our Form 10-KSB/A for the fiscal year ended December 31, 2003.

Inventory

Inventory, including out on consignment, consists primarily of software media, manuals and related packaging materials and is recorded at the lower of cost or market value, determined on a first-in, first-out basis and adjusted on a per-item basis.

Software Development Costs

In accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, software development costs are expensed as incurred until technological feasibility and marketability has been established, at which time such costs are capitalized until the product is available for general release to customers. Capitalized costs are amortized on a product-by-product basis using the greater of the straight-line method over the estimated product life or on the ratio of current revenues to total projected product revenues. We generally consider technological feasibility established with the release of a beta version for testing. Total capitalized software development costs at June 30, 2004 were \$1,177,400, less accumulated amortization of \$672,903. Research and development costs incurred and charged to expense were \$27,522 and \$30,003 for the three months ended June 30, 2004 and 2003, respectively and \$43,696 and \$97,794 for the six months ended June 30, 2004 and 2003, respectively.

Derivatives, (Restated)

In July 2004, we completed an equity financing through a private placement with Barron Partners, LP (see Note 11 - Subsequent Events). We account for warrants issued with shares of common stock in a private placement according to the guidance of EITF Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. In accordance with the accounting mandate, the derivative liability associated with the warrants has been and, until our registration statement, to be filed with the SEC on Form SB-2, is declared effective, shall continue to be adjusted to fair value (calculated using the Black-Scholes method) at each balance sheet date and accordingly reassessed at each such date to determine whether the warrants should be classified (or reclassified, as appropriate) as a liability or as equity. The corresponding fair value adjustment is included in the consolidated statements of operations as other expenses should the value of the warrants increases from an increase in our stock price at the balance sheet date and as other income should the value of the warrants decreases from a decrease in our stock price at the balance sheet date.

F-4

Table of Contents**NOTE 2 - INVENTORIES, (Restated)**

At June 30, 2004 and 2003, inventories consisted of the following:

| | 2004 | 2003 |
|----------------|-------------------|-------------------|
| Raw materials | \$ 67,000 | \$ 103,000 |
| Finished goods | 94,903 | 217,100 |
| | \$ 161,903 | \$ 320,100 |

During the three months ended March 31, 2004 and 2003, we wrote-off two distinctly different categories of obsolete inventory with a carried cost totaling \$32,396 and \$31,892, respectively. The 2004 obsolete inventory was a direct result of our March 2004 settlement with The Zondervan Corporation ("Zondervan") (see Note 11). These have been recognized in Cost of sales (see Note 12).

NOTE 3 - NOTES PAYABLE

At June 30, 2004 and 2003, notes payable consisted of the following:

| | 2004 | 2003 |
|--|------------------|-------------------|
| Unsecured demand note payable to a corporation, with interest at 9%. | \$ --- | \$ 650,000 |
| Note payable to a corporation, due May 31, 2003, with interest compounded monthly at 1.5%. Unsecured. Convertible at the option of the holder into 666,666 restricted common shares. | 33,333 | 33,333 |
| Note payable to a corporation, due May 31, 2003, with interest compounded monthly at 1.5%. Unsecured. Convertible at the option of the holder into 666,666 restricted common shares. | 33,333 | 33,333 |
| Note payable to a corporation, due May 31, 2003, with interest compounded monthly at 1.5%. Unsecured. Convertible at the option of the holder into 466,666 restricted common shares. | 23,333 | 33,333 |
| | \$ 89,999 | \$ 749,999 |

See Note 11 - Subsequent Events.

NOTE 4 - LONG-TERM NOTES PAYABLE

At June 30, 2004 and 2003, long-term notes payable consisted of the following:

| | 2004 | 2003 |
|--|------------------|------------------|
| | \$ 44,093 | \$ 78,103 |

Unsecured term note payable to a corporation due October 2004 in monthly installments of \$5,285, including interest at 8%.

| | | |
|--|----------------|-----|
| Term note payable to a corporation due December 2005 in monthly installments of \$6,833, including interest at 8%. Secured by inventory. | 116,994 | --- |
|--|----------------|-----|

| | | |
|---|---------------|-----|
| Unsecured term note payable to a corporation due March 2006 in monthly installments of \$4,384, including interest at 8%. | 79,363 | --- |
|---|---------------|-----|

| | | |
|-------------------------|------------------|-----------|
| | 240,450 | 78,103 |
| Less current maturities | 175,150 | 59,302 |
| | \$ 65,300 | \$ 18,801 |

Principal maturities at June 30, 2004 are as follows:

| | |
|------|------------|
| 2005 | \$ 175,150 |
| 2006 | 65,300 |
| | \$ 240,450 |

See Note 11 - Subsequent Events

Table of Contents**NOTE 5 - INCOME TAXES, (Restated)**

The provision for taxes on income consisted of the following:

| | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------|--------------------------------|-----------|------------------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Current: | | | | |
| Federal | \$ --- | \$ --- | \$ --- | \$ --- |
| State | (700) | --- | (700) | --- |
| | (700) | --- | (700) | --- |
| Deferred: | | | | |
| Federal | (25,001) | 46,304 | (50,002) | 92,608 |
| State | (5,310) | 10,312 | (10,620) | 20,624 |
| | (30,311) | 56,616 | (60,622) | 113,232 |
| Total tax (expense) benefit | \$ (31,011) | \$ 56,616 | \$ (61,322) | \$ 113,232 |

NOTE 6 - EARNINGS PER COMMON SHARE, (Restated)

Earnings per common share are computed by dividing net income by the weighted average number of common shares and common stock equivalents outstanding during the year. Common stock equivalents are the net additional number of shares that would be issuable upon the exercise of the outstanding common stock options and warrants, assuming we reinvested the proceeds to purchase additional shares at market value. A total of 2,440,000 and 4,132,200 potentially dilutive securities for the three and six months ended June 30, 2004 and 2003, respectively, have been excluded from the computation of diluted earnings per share, as their inclusion would be anti-dilutive.

The following table shows the amounts used in computing earnings per share and the effect on income and the average number of shares of dilutive potential common stock:

| Three months ended June 30 | 2004 | 2003 |
|--|--------------|------------|
| Net Income (loss) | \$ (320,708) | \$ 496,913 |
| Preferred stock dividends | --- | --- |
| Net income (loss) available to common shareholders | \$ (320,708) | \$ 496,913 |
| Basic weighted average shares outstanding | 23,276,312 | 19,811,438 |
| Dilutive effect of: | | |
| Stock options | --- | --- |
| Convertible preferred series A | --- | 114,000 |
| Convertible preferred series B | --- | 40,000 |
| Warrants | --- | 112,963 |
| Diluted weighted average shares outstanding | 23,276,312 | 20,078,401 |
| Earnings (loss) per share: | | |
| Basic | \$ (0.01) | \$ 0.03 |
| Diluted | \$ (0.01) | \$ 0.02 |

F-6

Table of Contents

| Six months ended June 30 | 2004 | 2003 |
|--|-------------------|-------------|
| Net Income (loss) | \$ (137,270) | \$ 524,146 |
| Preferred stock dividends | --- | --- |
| Net income (loss) available to common shareholders | \$ (137,270) | \$ 524,146 |
| Basic weighted average shares outstanding | 22,143,875 | 19,811,438 |
| Dilutive effect of: | | |
| Stock options | --- | --- |
| Convertible preferred series A | --- | 114,000 |
| Convertible preferred series B | --- | 40,000 |
| Warrants | --- | 103,947 |
| Diluted weighted average shares outstanding | 22,143,875 | 20,069,385 |
| Earnings (loss) per share: | | |
| Basic | \$ (0.01) | \$ 0.03 |
| Diluted | \$ (0.01) | \$ 0.03 |

NOTE 7 - STOCK-BASED COMPENSATION, (Restated)

Our Stock Incentive Plan (the "Plan") authorizes the issuance of various forms of stock-based awards including incentive and nonqualified stock options, stock appreciation rights attached to stock options, and restricted stock awards to our directors, officers and other key employees. Stock options are granted at an exercise price as determined by our Board at the time the Option is granted and shall not be less than the par value of such shares of common stock. Stock options vest quarterly over three years and have a term of ten years.

We apply APB Opinion No. 25 and related interpretations in accounting for our stock options. Accordingly, no compensation cost has been recognized for outstanding stock options. Had compensation cost for our outstanding stock options been determined based on the fair value at the grant date (calculated using the Black-Scholes Option-Pricing Model) for those options consistent with SFAS No. 123, our net income and primary and diluted earnings per share would have differed as reflected by the pro forma amounts indicated below:

| | Three months ended June | | Six months ended June 30, | |
|--|--------------------------------|-------------|----------------------------------|-------------|
| | 30, | | | |
| | 2004 | 2003 | 2004 | 2003 |
| Net income (loss), as reported | \$ (320,708) | \$ 496,913 | \$ (137,270) | \$ 524,146 |
| Pro Forma compensation charge under SFAS 123 | (13,696) | (15,722) | (26,307) | (31,444) |
| Pro Forma net income (loss) | \$ (334,404) | \$ 481,191 | \$ (163,577) | \$ 492,702 |
| Earnings (loss) per share: | | | | |
| Basic - as reported | \$ (0.01) | \$ 0.03 | \$ (0.01) | \$ 0.03 |
| Basic - pro forma | \$ (0.01) | \$ 0.02 | \$ (0.01) | \$ 0.02 |
| Diluted - as reported | \$ (0.01) | \$ 0.02 | \$ (0.01) | \$ 0.03 |
| Diluted - pro forma | \$ (0.01) | \$ 0.02 | \$ (0.01) | \$ 0.02 |

NOTE 8 - COMMITMENTS AND CONTINGENCIES, (Restated)

We are subject to legal proceedings and claims that arise in the ordinary course of our business. In the opinion of our management, the amount of ultimate liability with respect to these actions will not materially affect our financial statements taken as a whole.

F-7

Table of Contents

Our employment agreements with our management team each contain a provision for an annual bonus equal to 1% of our net income (3% total). We accrue this bonus on a quarterly basis. Our management team consists of our Chief Executive Officer (with a base annual salary of \$150,000), our Chief Financial Officer (with a base annual salary of \$110,000), and our Chief Technology Officer (with a base annual salary of \$150,000). In addition to the bonus provisions and annual base salary, each employment agreement provides for payment of all accrued base salaries (\$13,580 included in other current liabilities at June 30, 2004), bonuses (\$8,402 included in other current liabilities at June 30, 2004), and any vested deferred compensation (\$31,413 included in other current liabilities at June 30, 2004) for termination by reason of disability. The agreements also provide for severance compensation equal to the then base salary until the later of (i) the expiration of the term of the agreement as set forth therein or (ii) one year, when the termination is other than for cause (including termination by reason of disability). There is no severance compensation in the event of voluntary termination or termination for cause.

In March 2004, we finalized a settlement with Zondervan and TLC. The settlement agreement was effective October 20, 2003 and called for our payment to Zondervan of a total of \$500,000, plus 5% simple interest, in installments of \$150,000, plus interest, due November 15, 2003 and January 30, 2004, and installments of \$100,000, plus interest, due April 30, 2004 and July 30, 2004, all of which has been paid. The settlement agreement was secured by all rights, title and interest in QuickVerse® together with all proceeds produced by QuickVerse®. In addition, in accordance with the provisions of the settlement agreement, the term of the software license agreement with Parsons Technology, Inc., a subsidiary of TLC, has been extended indefinitely and provides us with the exclusive worldwide right to market and sell into non-secular channels, and to continue to develop those titles it covers.

We were in arrears with the Internal Revenue Service for back payroll taxes and had been paying the payroll taxes in monthly installments previously approved by the Internal Revenue Service. Subsequent to the financing received in July of 2004 (see Note 11 - Subsequent Events), we paid all back payroll taxes that were due to the Internal Revenue Service.

NOTE 9 - RISKS AND UNCERTAINTIES

Our future operating results may be affected by a number of factors. We are dependent upon a number of major inventory and intellectual property suppliers. If a critical supplier had operational problems or ceased making material available to us, operations could be adversely affected. We are also dependent upon a few major customers. If any of these customers experienced operational problems or ceased placing orders with us, operations could also be adversely affected.

NOTE 10 - GOING CONCERN

The accompanying financial statements have been prepared assuming that we will continue as a going concern. We have a negative current ratio and total liabilities in excess of total assets. Those factors create an uncertainty about our ability to continue as a going concern. Our management has secured investment capital, reduced liabilities (see Note 11 - Subsequent Events), and is pursuing further development of our flagship software titles. Our ability to continue as a going concern is dependent on the success of our flagship software titles and the successful development of new titles and platforms. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 11 - SUBSEQUENT EVENTS

On July 19, 2004, we cancelled 100,000 options with an exercise price of \$0.11 per share, 190,200 options with an exercise price of \$1.00 per share and 525,000 options with an exercise price of \$1.03 per share. We apply APB Opinion No. 25 and related interpretations in accounting for our stock options. Accordingly, no compensation cost had

been recognized for the above stock options; and therefore, there was no effect on our financial statements.

On July 19, 2004, we converted 8,900 shares of Preferred Series A into 178,000 common shares, 1,500 shares of Preferred Series A into 15,000 common shares, 1,000 shares of Preferred Series A into 25,000 common shares, and 40,000 shares of Preferred Series B into 266,667 common shares. In addition, we converted \$4,125 of unpaid accumulated Preferred Series A dividends into 56,356 common shares.

F-8

Table of Contents

On July 19, 2004, we completed an equity financing in the amount of \$1,750,000 through a private placement with a New York based private investment partnership. Under the terms of the agreement, the investor purchased 21,875,000 restricted common shares at a price of \$0.08 per share. In addition, according to the terms of the agreement, the investor is entitled to receive two warrants to purchase up to an additional 21,875,000 shares of common stock. The first warrant entitles the holder to purchase up to 10,937,500 shares of our common stock at a price of \$0.18 per share, and the second warrant entitles the holder to purchase up to 10,937,500 additional shares of our common stock at a price of \$0.60 per share. Each warrant is subject to standard adjustment provisions and each provides for settlement in registered shares of our common stock and may, at the option of the holder, be settled in a cashless, net-share settlement.

On July 20, 2004, we submitted a request to terminate the Accounts Receivable Financing Agreement with Alliance Financial Capital.

On July 26, 2004, we concluded a settlement agreement with an institutional private equity investor. As consideration of the settlement, we agreed to pay a one time termination fee of \$125,000 and issue 295,692 non-restricted shares of common stock with an effective issuance date of September 26, 2002. An original warrant dated March 26, 2001 to purchase 510,000 common shares exercisable at \$0.23 per share was cancelled.

In July 2004, we retired three notes payable totaling \$89,999 (see Note 3 - Notes Payable).

In July 2004, we retired a term note due December 2005 for a payment of \$70,000 (see Note 4 - Long-Term Notes Payable).

In July 2004, we paid all back payroll taxes that were due to the Internal Revenue Service (see Note 8 - Commitments and Contingencies).

In July 2004, we made the final payment to Zondervan for \$100,000 plus 5% simple interest. This payment completes all of our obligations that were previously outlined in the settlement agreement with Zondervan and TLC dated October 2003 (see Note 8 - Commitments and Contingencies). In addition, in accordance with the provisions of the settlement agreement, the term of the software license agreement with Parsons Technology, Inc., a subsidiary of TLC, has been extended indefinitely, and provides us with the exclusive worldwide right to market and sell into non-secular channels, and to continue to develop those titles it covers (see Note 8 - Commitments and Contingencies).

In August 2004, we received \$50,000 out of a total of \$100,000 from the cash held in reserve by our merchant banker.

NOTE 12 - RESTATEMENT AND RECLASSIFICATION

We have restated our financial statements for the three and six months ended June 30, 2004 and 2003 to reflect certain issues identified during a regulatory review of our financial statements associated with a certain registration statement filed with the SEC on November 22, 2004 on Form SB-2, which is pending effectiveness as of the date of this 10-QSB/A filing. Our management and our board of directors have concluded these restatements are necessary to reflect the changes described below. There was no net effect on cash provided by operating activities or cash used by investing and financing activities as a result of these corrections.

Revisions affecting our condensed consolidated statements of operations:

- In June 1999 we entered into a certain software license agreement with Parsons Technology, Inc. to manufacture, distribute and sell a variety of software titles, including QuickVerse® and Membership Plus®, by far our two largest

selling titles. During the three month period ended June 30, 2002, we offset the remaining unpaid installment of \$1,051,785 against the carrying amount of the 1999 license in accordance with the terms of the tentative settlement agreement with The Learning Company (“TLC”), the licensor-assignee at the time. Although paragraph 6 of SFAS No. 141, *Business Combinations*, which guides the recognition and measurement of intangible assets, provides that the measurement of an asset in which the consideration given is cash is measured by the amount of cash paid, our management has since concluded that too much time had passed between the date of the 1999 license and the date of the tentative settlement agreement for such an offset to be proper. Therefore, we recognized the extinguishment of the liability owed to TLC as income in the 2002 statement of operations. We have restated the condensed consolidated balance sheets as of June 30, 2004 and 2003 and the condensed consolidated statements of operations and consolidated statements of cash flows for the three and six months then ended.

Table of Contents

- During the three month period ended June 30, 2002, we extended the estimated life of the 1999 license from 10 years to 50 years in accordance with the terms of a tentative settlement agreement with TLC. Although the 1999 license, as amended, provides for our unlimited and exclusive use of the trademarks related to the licensed products, and our management assessed its useful life as indefinite based on the estimated future direct or indirect cash flows from the license, as determined in accordance with paragraphs 11 and 53 of SFAS No. 142, *Goodwill and Other Intangible Assets*, our management has since concluded that a 10 year life is appropriate on the basis of, among other things, on our going concern opinions for the years ended December 31, 2002 and 2003. We have restated our condensed consolidated balance sheets as of June 30, 2004 and 2003 and our condensed consolidated statements of operations and consolidated statements of cash flows for the three and six months then ended.
- We had previously, and erroneously, included rebates, and adjustments to rebates, as part of our sales and marketing expenses. The more appropriate presentation should have been, and is now, an adjustment to revenue, as in accordance with EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*. During the three months ended June 30, 2004, we recorded an adjustment to our rebates reserve in the amount of \$266,301 and an adjustment to rebates payable in the amount of \$12,599. Upon reassessment of the adequacy of our reserve at December 31, 2003, we have allocated \$124,262 of the total adjustment to fiscal year 2003 with \$14,793 allocated to the three months ended June 30, 2003, \$50,297 allocated to the three months ended September 30, 2003 and \$59,172 allocated to the three months ended December 31, 2003 and \$142,039 to fiscal year 2004 with \$66,575 allocated to the three months ended March 31, 2004 and \$75,464 allocated to the three months ended June 30, 2004. These adjustments resulted from a change in our internal control over financial reporting. Previously, when making our assessment of the adequacy of our reserve for rebates, we did not take into consideration the amount and number of outstanding checks, issued checks that were returned as undeliverable, or our ability to meet our recorded financial obligation. We changed our internal control procedures to include review of each of these factors in our assessment of the adequacy of the reserve for rebates. We have restated the condensed consolidated balance sheets as of June 30, 2004 and 2003 and the condensed consolidated statements of operations and consolidated statements of cash flows for the three and six months then ended.

Revisions affecting our condensed consolidated statements of operations:

- During the three months ended March 31, 2004 and 2003, we wrote-off two distinctly different categories of obsolete inventory with a carried cost totaling \$32,396 and \$31,892, respectively. The 2004 obsolete inventory write-off contained Zondervan-owned content and was a direct result of our March 2004 settlement with Zondervan (see Note 11). We originally recorded these events as non-recurring items in the other income (expense) section of the consolidated statements of operations. We have revised condensed consolidated statements of operations for the three and six months ended June 30, 2004 and 2003 to reflect these inventory adjustments in the cost of sales section. There was no net effect on our net income (loss) for the three and six months ended June 30, 2004 and 2003 as a result of our correction of this error.
- During the three months ended June 30, 2004, we reached a final settlement agreement in our dispute with Zondervan and TLC. As part of the settlement process, we conducted an internal audit (which was verified by an independent auditor provided by TLC) of the accrued royalties owed Zondervan. The audit revealed that accrued royalties had been overstated due to our 2001 bad debt recognition of TLC's trade accounts receivable balance. The amount by which the accrued royalties had been overstated remained part of our dispute with Zondervan and as such remained in our liabilities until a final settlement agreement was reached. We originally reported the adjustment as a non-recurring item in the other income (expense) section of our condensed consolidated statements of operations for the three and six months ended June 30, 2003. We have revised our condensed consolidated statements of operations for the three and six months ended June 30, 2003 to reflect the adjustment as other income. There was no net effect on the net income (loss) for the three and six months ended June 30, 2003 as a result of our correction of this error.

F-10

Table of Contents

- Rebates payable to a third-party processor were overstated on our consolidated financial statements for the year ended December 31, 2000. We discovered this error during the preparation of our condensed consolidated financial statements for the three months ended March 31, 2004. We originally recorded the error correction as an adjustment to our beginning retained earnings for the year ended December 31, 2003 in our fiscal year 2004 quarterly and annual filings. We have since revised our consolidated statements of operations for the year ended December 31, 2000 to reflect an adjustment to revenue and reported the correction on Form 10-KSB/A for the year then ended. There was no net effect on our net income (loss) for the three and six months ended June 30, 2004 and 2003 or retained earnings (deficit) at June 30, 2004 and 2003 as a result of our correction of this error.
- We have also reclassified various other expense items in our condensed consolidated statements of operations for the three and six months ended June 30, 2004 and 2003 to conform to the presentation in our statements of operations for the years ended December 31, 2004 and 2003. There was no net effect on our net income (loss) for the three and six months ended June 30, 2004 and 2003 as a result of our correction of this error.

Table of Contents

A summary of the effects of these changes is as follows:

Findex.com, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2004
(Unaudited)

| | As Originally Reported | As Restated | Change |
|---|------------------------------|----------------|-----------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 61,364 | \$ --- | \$ (61,364) (a) |
| Accounts receivable, trade | 183,241 | 183,241 | --- |
| Inventory | 161,903 | 161,903 | --- |
| Other current assets | 97,326 | 97,326 | --- |
| Total current assets | 503,834 | 442,470 | (61,364) |
| Property and equipment, net | 63,664 | 63,664 | --- |
| Software license, net | 2,513,158 | 2,517,538 | 4,380 (b) |
| Software development, net | 504,497 | 504,497 | --- |
| Restricted cash | --- | 100,354 | 100,354 (a) |
| Other assets | 93,805 | 93,805 | --- |
| Total assets | \$ 3,678,958 | \$ 3,722,328 | \$ 43,370 |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Cash overdraft | \$ --- | \$ 38,990 | \$ 38,990 (a) |
| Notes payable | 89,999 | 89,999 | --- |
| Accrued royalties | 1,203,369 | 1,203,369 | --- |
| Accounts payable, trade | 709,415 | 709,415 | --- |
| Current maturities of long-term notes payable | 175,150 | 175,150 | --- |
| Other current liabilities | 679,252 | 679,252 | --- |
| Total current liabilities | 2,857,185 | 2,896,175 | 38,990 |
| Long-term note payable | 65,300 | 65,300 | --- |
| Non-current deferred taxes | 1,052,932 | 777,774 | (275,158) (c) |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Preferred stock | 51 | 51 | --- |
| Common stock | 23,492 | 23,492 | --- |
| Paid-in capital | 7,227,564 | 7,227,564 | --- |
| Retained (deficit) | (7,547,566) | (7,268,028) | 279,538 |
| Total stockholders' equity | (296,459) | (16,921) | 279,538 |
| | \$ 3,678,958 | \$ 3,722,328 | \$ 43,370 |

Total liabilities and
stockholders' equity

- (a) Reclassification of restricted cash with merchant banker as non-current asset.
- (b) Net change from reclassification of forgiveness of final installment and additional amortization from returning the estimated economic useful life from indefinite to 10 years.
- (c) Decrease from recalculation of deferred income taxes resulting from changes to the software license agreement.

Table of Contents

Findex.com, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2003
(Unaudited)

| | As Originally Reported | As Restated | Change |
|---|------------------------------|----------------|-----------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 37,876 | \$ --- | \$ (37,876) (a) |
| Accounts receivable, trade | 158,700 | 158,700 | --- |
| Inventory | 320,100 | 320,100 | --- |
| Other current assets | 66,804 | 66,804 | --- |
| Total current assets | 583,480 | 545,604 | (37,876) |
| Property and equipment, net | 78,163 | 78,163 | --- |
| Software license, net | 2,529,896 | 3,021,044 | 491,148 (b) |
| Software development, net | 385,746 | 385,746 | --- |
| Restricted cash | --- | 50,000 | 50,000 (a) |
| Other assets | 49,393 | 49,393 | --- |
| Total assets | \$ 3,626,678 | \$ 4,129,950 | \$ 503,272 |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Cash overdraft | \$ --- | \$ 12,125 | \$ 12,125 (a) |
| Notes payable | 749,999 | 749,999 | --- |
| Accrued royalties | 1,595,859 | 1,595,859 | --- |
| Accounts payable, trade | 983,232 | 884,285 | (98,947) (c) |
| Current maturities of long-term notes payable | 59,302 | 59,302 | --- |
| Other current liabilities | 1,251,050 | 1,236,257 | (14,793) (e) |
| Total current liabilities | 4,639,442 | 4,537,827 | (101,615) |
| Long-term note payable | 18,801 | 18,801 | --- |
| Non-current deferred taxes | 1,067,494 | 830,381 | (237,113) (d) |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Preferred stock | 51 | 51 | --- |
| Common stock | 19,811 | 19,811 | --- |
| Paid-in capital | 7,029,079 | 7,029,079 | --- |
| Retained (deficit) | (9,148,000) | (8,306,000) | 842,000 |
| Total stockholders' equity | (2,099,059) | (1,257,059) | 842,000 |
| Total liabilities and stockholders' equity | \$ 3,626,678 | \$ 4,129,950 | \$ 503,272 |

Edgar Filing: FINDEX COM INC - Form 10QSB/A

- (a) Reclassification of restricted cash with merchant banker as non-current asset.
- (b) Net change from reclassification of forgiveness of final installment and additional amortization from returning the estimated economic useful life from indefinite to 10 years.
- (c) Decrease from restatement of 2000 error correction discovered in 2004.
- (d) Decrease from recalculation of deferred income taxes resulting from changes to the software license agreement.
- (e) Reallocation and reclassification of rebate adjustment to periods ended June 30, 2003, September 30, 2003, December 31, 2003, March 31, 2004 and June 30, 2004.

Table of Contents

Findex.com, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Six Months Ended June 30, 2004
(Unaudited)

| | As Originally Reported | As Restated | Change | |
|--|------------------------------|----------------|--------------|-----|
| Revenues, net of reserves and allowances | \$ 2,499,215 | \$ 2,653,853 | \$ 154,638 | (a) |
| Cost of sales | 630,791 | 740,069 | 109,278 | (b) |
| Gross profit | 1,868,424 | 1,913,784 | 45,360 | |
| Operating expenses: | | | | |
| Sales and marketing | 497,049 | 510,501 | 13,452 | (c) |
| General and administrative | 1,249,306 | 1,171,574 | (77,732) | (d) |
| Inventory write down | 32,396 | --- | (32,396) | (e) |
| Rebate reserve adjustment | (266,301) | --- | 266,301 | (f) |
| Bad debt provision | 2,500 | 2,500 | --- | |
| Depreciation and amortization | 22,886 | 274,639 | 251,753 | (g) |
| Total operating expenses | 1,537,836 | 1,959,214 | 421,378 | |
| Earnings (loss) from operations | 330,588 | (45,430) | (376,018) | |
| Other income | --- | 1,170 | 1,170 | (h) |
| Other expenses, net | (30,518) | (31,688) | (1,170) | (h) |
| Income (loss) before income taxes | 300,070 | (75,948) | (376,018) | |
| Provision for income taxes | (2,305) | (61,322) | (59,017) | (i) |
| Net income (loss) | \$ 297,765 | \$ (137,270) | \$ (435,035) | |
| Net earnings (loss) per share: | | | | |
| Basic | \$ 0.01 | \$ (0.01) | \$ (0.02) | |
| Diluted | \$ 0.01 | \$ (0.01) | \$ (0.02) | |
| Weighted average shares outstanding: | | | | |
| Basic | 22,143,875 | 22,143,875 | --- | |
| Diluted | 23,821,007 | 22,143,875 | (1,677,132) | (j) |

(a) Increase from reclassification of rebate reserve adjustment from Sales and marketing expenses.

(b) Increase from reclassification of non-capitalized technical support wages from General and administrative expenses, reclassification of fulfillment costs from Sales and marketing expenses, and reclassification of Inventory write down expense from operating expenses.

(c) Increase from reclassification of rebate reserve adjustment to Revenues and reclassification of fulfillment costs to Cost of sales.

- (d) Decrease from reclassification of non-capitalized technical support wages to Cost of sales.
- (e) Decrease from reclassification to Cost of sales.
- (f) Increase from reclassification as an adjustment to revenue.
- (g) Increase from effects of additional amortization of the software license agreement.
- (h) Reclassification of Other income.
- (i) Income tax effects of additional software license amortization.
- (j) Decrease due to change from net income to net loss.

Table of Contents

Findex.com, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended June 30, 2004
(Unaudited)

| | As Originally Reported | As Restated | Change | |
|--|------------------------------|----------------|--------------|-----|
| Revenues, net of reserves and allowances | \$ 961,951 | \$ 1,020,885 | \$ 58,934 | (a) |
| Cost of sales | 233,102 | 271,410 | 38,308 | (b) |
| Gross profit | 728,849 | 749,475 | 20,626 | |
| Operating expenses: | | | | |
| Sales and marketing | 280,033 | 267,902 | (12,131) | (c) |
| General and administrative | 658,603 | 615,895 | (42,708) | (d) |
| Rebate reserve adjustment | (266,301) | --- | 266,301 | (e) |
| Depreciation and amortization | 13,311 | 139,187 | 125,876 | (f) |
| Total operating expenses | 685,646 | 1,022,984 | 337,338 | |
| Earnings (loss) from operations | 43,203 | (273,509) | (316,712) | |
| Other income | --- | 1,170 | 1,170 | (g) |
| Other expenses, net | (16,188) | (17,358) | (1,170) | (g) |
| Income (loss) before income taxes | 27,015 | (289,697) | (316,712) | |
| Provision for income taxes | (1,505) | (31,011) | (29,506) | (h) |
| Net income (loss) | \$ 25,510 | \$ (320,708) | \$ (346,218) | |
| Net earnings (loss) per share: | | | | |
| Basic | \$ --- | \$ (0.01) | \$ (0.01) | |
| Diluted | \$ --- | \$ (0.01) | \$ (0.01) | |
| Weighted average shares outstanding: | | | | |
| Basic | 23,276,312 | 23,276,312 | --- | |
| Diluted | 24,953,444 | 23,276,312 | (1,677,132) | (i) |

- (a) Reclassification of rebate reserve adjustment from Sales and marketing expenses.
(b) Increase from reclassification of non-capitalized technical support wages from General and administrative expenses, and reclassification of fulfillment costs from Sales and marketing expenses.
(c) Decrease from reclassification of fulfillment costs to Cost of sales.
(d) Decrease from reclassification of non-capitalized technical support wages to Cost of sales.
(e) Increase from reclassification as an adjustment to revenue.
(f) Increase from effects of additional amortization of the software license agreement.
(g) Reclassification of Other income.

- (h) Income tax effects of additional software license amortization.
- (i) Decrease due to change from net income to net loss.

Table of Contents

Findex.com, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Six Months Ended June 30, 2003
(Unaudited)

| | As Originally Reported | As Restated | Change | |
|--|------------------------------|----------------|--------------|-----|
| Revenues, net of reserves and allowances | \$ 1,832,331 | \$ 1,847,475 | \$ 15,144 | (a) |
| Cost of sales | 486,639 | 561,143 | 74,504 | (b) |
| Gross profit | 1,345,692 | 1,286,332 | (59,360) | |
| Operating expenses: | | | | |
| Sales and marketing | 321,887 | 334,600 | 12,713 | (c) |
| General and administrative | 869,049 | 814,074 | (54,975) | (d) |
| Nonrecurring item | (551,736) | --- | 551,736 | (e) |
| Depreciation and amortization | 49,747 | 274,002 | 224,255 | (f) |
| Total operating expenses | 688,947 | 1,422,676 | 733,729 | |
| Earnings (loss) from operations | 656,745 | (136,344) | (793,089) | |
| Other income | --- | 584,612 | 584,612 | (g) |
| Other expenses, net | (36,369) | (37,354) | (985) | (h) |
| Income before income taxes | 620,376 | 410,914 | (209,462) | |
| Provision for income taxes | 17,400 | 113,232 | 95,832 | (i) |
| Net income | \$ 637,776 | \$ 524,146 | \$ (113,630) | |
| Net earnings per share: | | | | |
| Basic | \$ 0.03 | \$ 0.03 | \$ --- | |
| Diluted | \$ 0.03 | \$ 0.03 | \$ --- | |
| Weighted average shares outstanding: | | | | |
| Basic | 19,811,438 | 19,811,438 | --- | |
| Diluted | 19,965,438 | 20,069,385 | 103,947 | (j) |

(a) Reclassification of rebate reserve adjustment from Sales and marketing expenses and reallocation to the periods ended June 30, 2003, September 30, 2003, December 31, 2003, March 31, 2004 and June 30, 2004.

(b) Increase from reclassification of non-capitalized technical support wages from General and administrative expenses, reclassification of fulfillment costs from Sales and marketing expenses, and reclassification of Inventory write down expense from operating expenses.

(c) Increase from reclassification of rebate reserve adjustment to Revenues and reclassification of fulfillment costs to Cost of sales.

(d) Decrease from reclassification of non-capitalized technical support wages to Cost of sales.

- (e) Reclassification of Inventory write down to Cost of sales and royalty adjustment to Other income.
- (f) Increase from additional amortization of software license agreement from returning the economic useful life to 10 years.
- (g) Reclassification of royalty adjustment from nonrecurring item and miscellaneous income from Other expenses, net.
- (h) Reclassification of miscellaneous income to Other income.
- (i) Income tax effects of additional software license amortization.
- (j) Increase from recalculation of potentially dilute common stock warrants.

Table of Contents

Findex.com, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended June 30, 2003
(Unaudited)

| | As Originally Reported | As Restated | Change | |
|--|------------------------------|----------------|-------------|-----|
| Revenues, net of reserves and allowances | \$ 769,965 | \$ 778,634 | \$ 8,669 | (a) |
| Cost of sales | 238,984 | 262,322 | 23,338 | (b) |
| Gross profit | 530,981 | 516,312 | (14,669) | |
| Operating expenses: | | | | |
| Sales and marketing | 157,890 | 155,915 | (1,975) | (c) |
| General and administrative | 371,755 | 344,269 | (27,486) | (d) |
| Nonrecurring items | (583,628) | --- | 583,628 | (e) |
| Depreciation and amortization | 24,775 | 136,902 | 112,127 | (f) |
| Total operating expenses | (29,208) | 637,086 | 666,294 | |
| Earnings (loss) from operations | 560,189 | (120,774) | (680,963) | |
| Other income | --- | 583,628 | 583,628 | (e) |
| Other expenses, net | (22,557) | (22,557) | --- | |
| Income before income taxes | 537,632 | 440,297 | (97,335) | |
| Provision for income taxes | 8,700 | 56,616 | 47,916 | (g) |
| Net income | \$ 546,332 | \$ 496,913 | \$ (49,419) | |
| Net earnings per share: | | | | |
| Basic | \$ 0.03 | \$ 0.03 | \$ --- | |
| Diluted | \$ 0.03 | \$ 0.02 | \$ (0.01) | |
| Weighted average shares outstanding: | | | | |
| Basic | 19,811,438 | 19,811,438 | --- | |
| Diluted | 19,965,438 | 20,078,401 | 112,963 | (h) |

(a) Reclassification of rebate reserve adjustment from Sales and marketing expenses and reallocation to the periods ended June 30, 2003, September 30, 2003, December 31, 2003, March 31, 2004 and June 30, 2004.

(b) Increase from reclassification of non-capitalized technical support wages from General and administrative expenses, and reclassification of fulfillment costs from Sales and marketing expenses.

(c) Decrease from reclassification of rebate reserve adjustment to Revenues and reclassification of fulfillment costs to Cost of sales.

(d) Decrease from reclassification of non-capitalized technical support wages to Cost of sales.

(e) Reclassification of royalty adjustment from nonrecurring item to Other income.

- (f) Increase from additional amortization of software license agreement from returning the economic useful life to 10 years.
- (g) Income tax effects of additional software license amortization.
- (h) Increase from recalculation of potentially dilute common stock warrants.

Table of Contents

Findex.com, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2004
(Unaudited)

| | As Originally Reported | As Restated | Change | |
|--|------------------------------|----------------|--------------|-----|
| Cash flows from operating activities: | | | | |
| Cash received from customers | \$ 2,687,874 | \$ 2,639,964 | \$ (47,910) | (a) |
| Cash paid to suppliers and employees | (2,691,400) | (2,409,585) | 281,815 | (b) |
| Other operating activities, net | 205,739 | (28,166) | (233,905) | (c) |
| Net cash provided by operating activities | 202,213 | 202,213 | --- | |
| Cash flows from investing activities: | | | | |
| Acquisition of property and equipment | (18,612) | (18,612) | --- | |
| Software development costs | (178,049) | (178,049) | --- | |
| Website development costs | (31,836) | (31,836) | --- | |
| Deposits made | (485) | (485) | --- | |
| Net cash (used) by investing activities | (228,982) | (228,982) | --- | |
| Cash flows from financing activities: | | | | |
| Payments made on line of credit, net | (2,999) | (2,999) | --- | |
| Cash overdraft | --- | 38,990 | 38,990 | (i) |
| Payments made on long-term notes payable | (50,890) | (50,890) | --- | |
| Net cash (used) by financing activities | (53,889) | (14,899) | 38,990 | |
| Net (decrease) in cash and cash equivalents | (80,658) | (41,668) | 38,990 | |
| Cash and cash equivalents, beginning of year | 142,022 | 41,668 | (100,354) | (d) |
| Cash and cash equivalents, end of period | \$ 61,364 | \$ --- | \$ (61,364) | |
| Reconciliation of net income (loss) to cash flows from operating activities: | | | | |
| Net income (loss) | \$ 297,765 | \$ (137,270) | \$ (435,035) | |
| Adjustments to reconcile net income | | | | |

| | | | | |
|--|------------|------------|-----------|-----|
| (loss) to net cash provided by operating activities: | | | | |
| Software development costs amortized | 258,258 | 258,258 | --- | |
| Provision for bad debts | 2,500 | 2,500 | --- | |
| Stock and warrants issued for services | 44,186 | 44,186 | --- | |
| Rebate reserve adjustment | (266,301) | 124,262 | 390,563 | (e) |
| Depreciation and amortization | 22,886 | 274,639 | 251,753 | (f) |
| Change in assets and liabilities: | | | | |
| Decrease in accounts receivable | 180,062 | 180,062 | --- | |
| Decrease in inventories | 110,697 | 110,697 | --- | |
| (Increase) in prepaid expenses | (75,406) | (75,406) | --- | |
| (Decrease) in accrued royalties | (204,937) | (204,937) | --- | |
| (Decrease) in accounts payable | (174,711) | (174,708) | 3 | (g) |
| Increase in income taxes payable | 700 | 700 | --- | |
| Increase in deferred taxes | 1,605 | 60,622 | 59,017 | (h) |
| Increase (decrease) in other liabilities | 4,909 | (261,392) | (266,301) | (e) |
| Net cash provided by operating activities | \$ 202,213 | \$ 202,213 | \$ --- | |

- (a) Decrease from reclassification of estimated cost of sales returns against cash paid.
- (b) Increase from reclassification of reserve for rebate adjustment from other operating activities, reclassification of inventory write-down from other operating activities, and estimated cost of sales returns from cash received.
- (c) Decrease from reclassification of reserve for rebate adjustment and inventory write-down to cash paid.
- (d) Decrease from reclassification of restricted cash as other asset.
- (e) Reclassification of Rebate reserve adjustment as decrease in other liabilities.
- (f) Additional software license amortization.
- (g) Rounding difference.
- (h) Net income tax effects of additional software amortization.
- (i) Reclassify cash overdraft as financing activity.

Table of Contents

Findex.com, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2003
(Unaudited)

| | As Originally Reported | As Restated | Change | |
|---|------------------------------|----------------|--------------|-----|
| Cash flows from operating activities: | | | | |
| Cash received from customers | \$ 2,045,624 | \$ 2,045,624 | \$ --- | |
| Cash paid to suppliers and employees | (1,861,189) | (1,861,189) | --- | |
| Other operating activities, net | 21,611 | 21,611 | --- | |
| Net cash provided by operating activities | 206,046 | 206,046 | --- | |
| Cash flows from investing activities: | | | | |
| Acquisition of property and equipment | (6,643) | (6,643) | --- | |
| Software development costs | (145,666) | (145,666) | --- | |
| Website development costs | (21,055) | (21,056) | (1) | (a) |
| Deposits made | (500) | (50,500) | (50,000) | (b) |
| Net cash (used) by investing activities | (173,864) | (223,865) | (50,001) | |
| Cash flows from financing activities: | | | | |
| Payments made on line of credit, net | (5,016) | (5,016) | --- | |
| Cash overdraft | --- | 12,125 | 12,125 | (f) |
| Payments made on long-term notes payable | (27,941) | (27,941) | --- | |
| Net cash (used) by financing activities | (32,957) | (20,832) | 12,125 | |
| Net (decrease) in cash and cash equivalents | (775) | (38,651) | (37,876) | |
| Cash and cash equivalents, beginning of year | 38,651 | 38,651 | --- | |
| Cash and cash equivalents, end of period | \$ 37,876 | \$ --- | \$ (37,876) | |
| Reconciliation of net income to cash flows from operating activities: | | | | |
| Net income | \$ 637,776 | \$ 524,146 | \$ (113,630) | |
| Adjustments to reconcile net income to net cash | | | | |

| | | | | |
|---|------------|------------|----------|-----|
| provided by operating activities: | | | | |
| Software development costs amortized | 40,422 | 40,422 | --- | |
| Rebate reserve adjustment | --- | (14,793) | (14,793) | (e) |
| Depreciation and amortization | 49,747 | 274,002 | 224,255 | (c) |
| Change in assets and liabilities: | | | | |
| Decrease in accounts receivable | 69,541 | 69,541 | --- | |
| Decrease in inventories | 96,600 | 96,600 | --- | |
| Decrease in refundable income taxes payable | 29,148 | 29,148 | --- | |
| (Increase) in prepaid expenses | (9,254) | (9,254) | --- | |
| (Decrease) in accrued royalties | (534,754) | (534,754) | --- | |
| (Decrease) in accounts payable | (187,278) | (187,278) | --- | |
| (Decrease) in deferred taxes | (17,400) | (113,232) | (95,832) | (d) |
| Increase in other liabilities | 31,498 | 31,498 | --- | |
| Net cash provided by operating activities | \$ 206,046 | \$ 206,046 | \$ --- | |

(a) Rounding difference.

(b) Increase from reclassification of restricted cash held by merchant banker.

(c) Increase from additional software license amortization.

(d) Income tax effects from additional software license amortization.

(e) Reallocation and reclassification of rebate adjustment to periods ended June 30, 2003, September 30, 2003, December 31, 2003, March 31, 2004 and June 30, 2004.

(f) Reclassify cash overdraft as financing activity.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

This Form 10-QSB/A, press releases and certain information provided periodically in writing or orally by our officers or our agents contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act, as amended; Section 21E of the Securities Exchange Act of 1934; and the Private Securities Litigation Reform Act of 1995. The words "may", "would", "could", "will", "expect", "estimate", "anticipate", "believe", "goal", and similar expressions and variations thereof are intended to specifically identify forward-looking statements. These statements appear in a number of places in this Form 10-QSB/A and include all statements that are not statements of historical fact regarding the intent, belief or current expectations of us, our directors or our officers, with respect to, among other things: (i) our liquidity and capital resources; (ii) our financing opportunities and plans; (iii) our ability to attract customers to generate revenues; (iv) market and other trends affecting our future financial condition or results of operations; (v) our growth strategy and operating strategy; and (vi) the declaration and/or payment of dividends.

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include, among others, those set forth in Part I, Item 2 of this quarterly report on Form 10-QSB/A, entitled Management's Discussion and Analysis or Plan of Operation, including without limitation the risk factors contained in the Company's annual report on Form 10-KSB/A for period ending December 31, 2003. Except as required by law, we undertake no obligation to update any of the forward-looking statements in this Form 10-QSB/A after the date of this report.

GENERAL

We develop, publish, market, distribute and directly sell off-the-shelf consumer and organizational software products for PC and PDA platforms. The common thread among our products is a customer constituency that shares a devotion to, or interest in, Christianity and faith-based "inspirational" values. Our focus is on becoming the largest worldwide provider of Bible study and related faith-based software products through ongoing internal development of new products, expansion and upgrade of existing products, and strategic product line and/or corporate acquisitions and licensing.

Our religious software titles are currently divided among the following six categories:

- Bible Study
- Financial/Office Management Products for Churches and other Faith-Based Ministries
 - Print & Graphic Products
 - Pastoral Products
 - Children's Products
 - Language Tutorial Products.

RESULTS OF OPERATIONS

Our software products are highly seasonal. More than 50% of our annual sales are expected to occur in the five months of September through January; the five months of April through August are generally our weakest, historically generating only about 29% of our annual sales.

During the quarter ended June 30, 2003, we recorded approximately \$584,000 as Other Income as a result of accrued royalties being overstated in connection with the 2001 bad debt recognition from the trade accounts receivable balance

with The Learning Company (“TLC”). Furthermore, for the six months ended June 30, 2004 and 2003 we wrote down a reserve for rebates payable due to a change in accounting estimate of approximately \$142,000 and \$15,000, respectively, which is included as an adjustment to revenue in accordance with EITF Issue No. 01-09. Net income decreased approximately \$818,000 for the three months ended June 30, 2004 from a net income of approximately \$497,000 for the three months ended June 30, 2003 to a net loss of approximately \$321,000 for the three months ended June 30, 2004 and decreased approximately \$661,000 for the six months ended June 30, 2004 from a net income of approximately \$524,000 for the six months ended June 30, 2003 to a net loss of approximately \$137,000 for the six months ended June 30, 2004.

Table of Contents

Overall, interest expense for the three and six months ended June 30, 2004 decreased by approximately \$5,300 and \$15,000 respectively compared to 2003. This is due to our reducing trade payables and meeting the scheduled terms. Furthermore, the note liabilities interest was reduced due to the reclassification of the note payable in the fourth quarter of 2003. Amortization expense related to the software license remained steady for the three and six months ended June 30, 2004 compared to 2003. Amortization expense related to software development costs increased approximately \$39,000 and \$150,000 for the three and six months ended June 30, 2004 compared to 2003. This is a direct result from QuickVerse® 8.0 shipping in late December 2003 and Membership Plus® 8.0 shipping in January 2004.

Revenues

We derive revenues from the sale of packaged software products, product support and multiple element arrangements that may include any combination of these items. Revenue is recognized when persuasive evidence of an arrangement exists (generally a purchase order), we have delivered the product, the fee is fixed or determinable and collectibility is probable. For our packaged software products, we typically recognize revenue from the sale when we ship the product. We sell some of our products on consignment to a limited number of resellers. We recognize revenue for these consignment transactions only when the end-user sale has occurred. Service revenue resulting from technical support plans is recognized over the life of the plan which is generally one year. Revenue associated with advance payments from our customers is deferred until we ship the product or offer the support service. Revenue for software distributed electronically via the Internet is recognized when the customer has been provided with the access codes that allow the customer to take immediate possession of the software on its hardware and evidence of the arrangement exists. For revenue arrangements involving multiple elements and include software products, we allocate and defer revenue for the undelivered elements based on their vendor-specific objective evidence of fair value, which is generally the price charged when that element is sold separately.

We reduce product revenue for estimated returns and price protections that are based on historical experience and other factors such as the volume and price mix of products in the retail channel, trends in retailer inventory and economic trends that might impact customer demand for our products. Estimated returns are also based upon a percentage of total retail and direct sales. We account for cash considerations (such as sales incentives - rebates and coupons) that we give our customers as a reduction of revenue rather than as an operating expense. Product revenue is also reduced for the estimated redemption of end-user rebates on certain current product sales.

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

Product returns from distributors and Christian bookstores are allowed primarily in exchange for new products or for credit towards purchases as part of a stock-balancing program. These returns are subject to certain limitations that may exist in the contract. Under certain circumstances, such as termination or when a product is defective, distributors and bookstores could receive a cash refund if returns exceed amounts owed. Returns from sales made directly to the consumer are accepted within 45 days of purchase and are issued a cash refund. Product returns or price protection concessions that exceed our reserves could materially adversely affect our business and operating results and could increase the magnitude of quarterly fluctuations in our operating and financial results.

Software products are sold separately, without future performance such as upgrades enhancements or additional software products, and are sold with post contract customer support services such as customer service and technical support assistance. In connection with the sale of certain products, we provide a limited amount of free technical support assistance to our customers. We do not defer the recognition of any revenue associated with sales of these products, since the cost of providing this free technical support is insignificant. The technical support is provided within one year after the associated revenue is recognized and free product enhancements (bug fixes) are minimal and infrequent. We accrue the estimated cost of providing this free support upon product shipment and include it in cost of sales.

Table of Contents

Shipping and handling costs in connection with our software products are expensed as incurred and included in cost of goods sold.

Gross revenues increased approximately \$217,000 for the three months ended June 30, 2004 from approximately \$840,000 for the three months ended June 30, 2003 to approximately \$1,057,000 for the three months ended June 30, 2004 and increased approximately \$757,000 for the six months ended June 30, 2004 from approximately \$2,016,000 for the six months ended June 30, 2003 to approximately \$2,773,000 for the six months ended June 30, 2004. Such increase is due to our release of an enhanced version of our flagship product, QuickVerse[®], in late fourth quarter of 2003 and the release of an enhanced version of our top financial and data management product, Membership Plus[®], during the first quarter of 2004. Although there was a new product release during the first quarter of 2003, the retail value of the product was significantly lower than the QuickVerse[®] and Membership Plus[®] titles and ranged from \$19.95 to \$29.95.

Sales returns and allowances increased approximately \$29,000 for the three months ended June 30, 2004 from approximately \$83,000 for the three months ended June 30, 2003 to approximately \$112,000 for the three months ended June 30, 2004 and increased approximately \$106,000 for the six months ended June 30, 2004 from approximately \$216,000 for the six months ended June 30, 2003 to approximately \$322,000 for the six months ended June 30, 2004 and slightly increased as a percentage of gross sales from approximately 9.8% to approximately 10.6% for the three months ended June 30, 2003 and from approximately 10.7% to approximately 11.6% for the six months ended June 30, 2004. The increase in sales returns and allowances as a percentage is attributable to extending our return policy on direct sales from 30 days to 45 days during the fourth quarter of 2003. Finally, for the six months ended June 30, 2004 and 2003 we wrote down a reserve for rebates payable due to a change in accounting estimate of approximately \$142,000 and \$15,000, respectively, which is included as an adjustment to revenue in accordance with EITF Issue No. 01-09.

COST OF SALES

Cost of sales consists primarily of royalties to third party providers of intellectual property and the direct costs and manufacturing overhead required to reproduce, package, fulfill and ship the software products. Direct costs and manufacturing overhead also include the amortized software development costs and the non-capitalized technical support wages. The direct costs and manufacturing overhead increased from approximately 19.2% to approximately 22.4% of gross revenues for the three months ended June 30, 2003 and from approximately 20.3% to approximately 22.6% of gross revenues for the six months ended June 30, 2004. The six months ended June 30, 2003 and 2004 include the write down of two distinct categories of obsolete inventory of approximately \$32,000, respectively, and the 2004 inventory write down was a direct result of settlement negotiations with The Zondervan Corporation ("Zondervan"). The increase resulted directly from an increase in fulfillment costs and amortization of software development costs. Fulfillment costs from a third-party warehouse increased approximately \$27,000 during the six months ended June 30, 2004 as we had an increased amount of retail sales during the first quarter of 2004 due to the enhanced releases of QuickVerse[®] and Membership Plus[®]. The amortization recognized during the three and six months ended June 30, 2003 resulted from several new software releases in 2003 and the continued amortization of those products released in 2002. Furthermore, the amortization increase for the three and six months ended June 30, 2004 corresponds with the December 2003 release of QuickVerse[®] 8.0 and the January 2004 release of Membership Plus[®] 8.0. The direct costs and manufacturing overhead percentage is expected to continue at the 2004 levels as working capital remains more consistent and as more development projects are implemented.

Table of Contents

Royalties to third party providers of intellectual property decreased approximately \$66,000 from approximately \$101,000 for the three months ended June 30, 2003 to approximately \$35,000 for the three month ended June 30, 2004 and approximately \$37,000 from approximately \$152,000 for the six months ended June 30, 2003 to approximately \$115,000 for the six months ended June 30, 2004. The royalty rate as a percentage of gross revenues decreased from approximately 12% of gross revenue for the three months ended June 30, 2003 to approximately 3% of gross revenue for the three months ended June 30, 2004 and from approximately 8% of gross revenues for the six months ended June 30, 2003 to approximately 4% of gross revenues for the six months ended June 30, 2004. The decrease of royalties reflects an increase in upgrade sales of the QuickVerse® 8.0 and Membership Plus® 8.0. Membership Plus® upgrades are not subject to royalties and QuickVerse® upgrades are subject to reduced royalties on only the content differences between versions or editions.

Software development costs are expensed as incurred until technological feasibility has been established, at which time development costs are capitalized until the software title is available for general release to customers. Development costs include direct production costs (including labor directly associated with the development projects), indirect costs (including allocated fringe benefits, payroll taxes, facilities costs and management supervision), and other direct costs (including costs of outside consultants, purchased software to be included in the software product being developed, travel expenses, material and supplies, and other direct costs). Software development is segregated by title and technology platform. Once a product has been successfully released, subsequent revisions and upgrades are considered development and the costs of the revision and upgrade are capitalized. Capitalized costs are amortized on a product-by-product basis using the greater of (i) the straight-line amortization over the estimated life of the product (generally from 12 to 18 months), or (ii) the ratio of current revenues from the product to the total projected revenue over the life of the product. Generally, we consider technological feasibility to have been established with the release of a beta version for testing.

Software development costs are summarized in the table below. The decrease in capitalization from 2003 to 2004 reflects that QuickVerse® 8.0, and other projects, were in development during 2003 with fewer projects and no QuickVerse® upgrade in development during 2003. The increase in amortization from 2003 to 2004 reflects the release of QuickVerse® 8.0 and Membership Plus® 8.0 during the 4th quarter of 2003 and the 1st quarter of 2004.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------------------|------------------------------|-------------------|
| | 2003 | 2004 | 2003 | 2004 |
| Beginning balance | \$ 306,155 | \$ 506,121 | \$ 280,502 | \$ 584,706 |
| Capitalized | 147,028 | 104,421 | 213,103 | 178,049 |
| Amortized (cost of sales) | 67,437 | 106,045 | 107,859 | 258,258 |
| Ending balance | \$ 385,746 | \$ 504,497 | \$ 385,746 | \$ 504,497 |
| Research and development expense (General and administrative) | \$ 30,003 | \$ 27,522 | \$ 97,794 | \$ 43,696 |

SALES, GENERAL AND ADMINISTRATIVE

Sales expenses increased approximately \$112,000 from approximately \$156,000 for the three months ended June 30, 2003 to approximately \$268,000 for the three months ended June 30, 2004 and approximately \$176,000 from approximately \$335,000 for the six months ended June 30, 2003 to approximately \$511,000 for the six months ended June 30, 2004. Included in sales expenses, commissions to a third-party telemarketing firm increased approximately \$113,000 during the six months ended June 30, 2004 as our sales focus to the direct consumer increased along with the number of new and enhanced product releases during late 2003 and early 2004. Advertising costs also increased approximately \$57,000 during the six months ended June 30, 2004 with the new and enhanced product releases and

the Christian Booksellers Association International conference being held in June rather than in July for 2004. Marketing and Customer Service costs increased approximately \$6,000 as we continue to expand our sales efforts and focus more on our direct marketing efforts rather than retail stores.

-4-

Table of Contents

Research and development costs include direct production costs (including labor directly associated with the development projects), indirect costs (including allocated fringe benefits, payroll taxes, facilities costs and management supervision), and other direct costs (including costs of outside consultants, purchased software to be included in the software product being developed, travel expenses, material and supplies, and other direct costs). Software development costs expensed as research and development are listed in the table above. The decrease in 2004 reflects the early stages of new development projects for the year of 2004. Research and development expenses are expected to increase in future periods as we add new products and versions to our product mix along with new platforms for our current and future products.

Total personnel costs increased approximately \$126,000 from approximately \$667,000 for the six months ended June 30, 2003 to approximately \$793,000 for the six months ended June 30, 2004. This increase is primarily due to the addition of staff members and the associated health care costs. We also recognized approximately \$14,000 in expenses related to the issuance of 637,500 restricted common shares to employees and approximately \$8,000 in expenses for upper management year-end bonus accrual. The capitalization of direct and indirect labor and related overhead charges as software development costs (see "Cost of Sales" above) decreased by approximately \$84,000 from approximately \$130,000 for the six months ended June 30, 2003 to approximately \$46,000 for the six months ended June 30, 2004. This decrease is due to the early stages of new development projects for the year 2004. It is anticipated that personnel costs will increase in future periods as operating capital is available to fund full staffing of our product development team and expansion of the technical support and direct marketing staff. In addition, interest and penalty fees related to back payroll taxes increased approximately \$48,000 for the six months ended June 30, 2004.

Direct legal costs increased approximately \$34,000 as the disputes with TLC and Zondervan were finalized in March 2004. Rent expense increased approximately \$9,000 as we opened a new product development facility located in Naperville, IL. Fees for outside board of directors increased approximately \$17,000 as we have accounted for their services for the first two quarters of 2004, which is related to the issuance of 324,074 restricted common shares. Travel costs increased approximately \$16,000 as we increased our sales staff and our sales efforts to our retail customers as new product lines and enhancements were introduced during late 2003 and early 2004. Telecommunication costs increased approximately \$42,000 from an increase in technical support and customer service calls due to our two new major product releases in late December 2003 and early 2004. Corporate service fees increased approximately \$28,000 for the six months ended June 30, 2004. These fees are related to the recent hire of an outside consultant and the expense for a previous issuance of a warrant to purchase 250,000 common shares. Finally, bad debt expense increased \$2,500 during 2004 due to the increased amount of outstanding accounts receivable.

Amortization

Amortization expense increased approximately \$2,000 from approximately \$252,000 for the six months ended June 30, 2003 to approximately \$254,000 for the six months ended June 30, 2004. The software license acquired from TLC in July of 1999 is amortized over a 10 year useful life. Amortization expense for 2004 reflects the continual amortization of the software license along with the launch of our website, www.quickverse.com, during the second quarter of 2004.

INCOME TAX BENEFITS

Our effective tax rate differs from the statutory federal rate due to differences between income and expense recognition prescribed by the Internal Revenue Code and Generally Accepted Accounting Principles. We utilize different methods and useful lives for depreciating property and equipment. Changes in estimates (reserves) are recognized as expense for financial reporting but are not deductible for income tax purposes.

We have recognized a net deferred tax asset whose realization depends on generating future taxable income. At June 30, 2004, management has established the valuation allowance based on the assessment that we will produce sufficient income in the future to realize the net deferred tax asset. The resulting deferred tax liability reflects income taxes payable in future periods on the net deductible differences related to the software license agreement. We currently have net operating loss carryforwards, for income tax purposes, of approximately \$8,400,000. The carryforwards are the result of income tax losses generated in 2000 (\$2,973,000 expiring in 2020), 2001 (\$5,191,000 expiring in 2021) and 2002 (\$236,000 expiring in 2022). We will need to achieve a minimum annual taxable income, before deduction of operating loss carryforwards, of approximately \$442,000 to fully utilize the current loss carryforwards. We believe this is achievable through continued careful expense management and introduction of new products and enhanced versions of our existing products.

Table of Contents

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

LIQUIDITY AND CAPITAL RESOURCES

Our primary needs for liquidity and capital resources are the funding of our continued operations, which includes the ongoing internal development of new products and expansion and upgrade of existing products. We believe our future cash provided by operations will be sufficient to fund our continued operations. However, our pursuit of future strategic product line and/or corporate acquisitions and licensing will require funding from outside sources. Funding from outside sources may include but are not limited to the exercise of outstanding warrants and pursuit of other financing options such as commercial loans, common stock and/or preferred stock issuances and convertible notes. At this time, we have no legally committed funds for future capital expenditures including software development.

As of June 30, 2004, we had approximately \$442,000 in current assets, \$2,896,000 in current liabilities and a retained deficit of approximately \$7,268,000. This continues to create an uncertainty about our ability to continue as a going concern. We had a net loss before income taxes of approximately \$290,000 for the three months ended June 30, 2004 and a net loss before income taxes of approximately \$76,000 for the six months ended June 30, 2004.

Net cash provided by operating activities was approximately \$206,000 for the six months ended June 30, 2003 and approximately \$202,000 for the six months ended June 30, 2004. Cash provided by operating activities is not currently adequate to meet our current software development and debt service needs.

Net cash used in investing activities was approximately \$224,000 for the six months ended June 30, 2003 and approximately \$229,000 for the six months ended June 30, 2004. The increase in cash used for investing activities results from capitalizing costs associated with software development and upgrading our website to expand our e-commerce capability. Software development activities will continue on an ongoing basis while costs associated with upgrading our website ceased during May 2004 with the launching of our new site.

Net cash used by financing activities was approximately \$21,000 for the six months ended June 30, 2003 and approximately \$15,000 for the six months ended June 30, 2004. Cash used by financing activities reflects a cash overdraft and payments made on debt obligations.

On March 19, 2001, we entered into an Accounts Receivable Financing Agreement (the "Financing Agreement") with Alliance Financial Capital, Inc. ("AFC"). Pursuant to which Financing Agreement, AFC agreed to purchase selected accounts receivable on a discounted basis, including, without limitation, full power to collect, compromise, sue for, assign, or in any manner enforce collection thereof. The Financing Agreement provides for advances of 60% toward the purchase of the invoices with a credit line of \$250,000. The terms call for 40% to be held in a reserve account from the collection of each invoice. Invoices not paid by the customer within 90 days of shipment are required to be repurchased by us out of the reserve account. The agreement carries a 12-month term with a minimum monthly fee equal to one half of one percent (.5%). The term renews automatically in 12-month increments unless a written request for termination is received by AFC at least 30 days prior to the renewal date. During the six months ended June 30, 2004, we transferred accounts receivable totaling \$286,677 to a lender for cash advances of \$170,603. As accounts are paid, the collected funds (less the amount advanced and appropriate fees) are disbursed to us. The transfer agreement includes a repurchase requirement and, accordingly, the proceeds were accounted for as a secured borrowing. At June 30, 2004, the balance of receivables transferred and included in trade receivables was \$29,895. The remaining secured borrowing balance of \$17,937 is included in accrued expenses. On July 20, 2004, we submitted our request to terminate the Accounts Receivable Financing Agreement.

On July 19, 2004, we completed an equity financing in the amount of \$1,750,000 through a private placement with Barron Partners, LP ("Barron"). Under the terms of the agreement, Barron purchased 21,875,000 restricted shares of common stock at a price of \$0.08 per share. In addition, according to the terms of the agreement, Barron received two warrants to purchase common stock. The first warrant entitles Barron to purchase up to 10,937,500 shares of common stock at a price of \$0.18 per share and the second warrant entitles Barron to purchase up to 10,937,500 additional shares of commons stock at a price of \$0.60 per share; each warrant is subject to standard adjustment provisions.

Table of Contents

Although there can be no assurance, we believe that through this combination of capital and revenues generated from direct-to-consumer sales, we will have sufficient sources of capital to meet our operating needs. However, any substantial delays in receipt of or a failure to obtain such capital and any delays in product releases will prevent us from operating as a going concern, given our limited revenues and capital reserves.

We were in arrears with the Internal Revenue Service for back payroll taxes and had been paying the payroll taxes in monthly installments previously approved by the Internal Revenue Service. Subsequent to the financing received in July of 2004, we paid all back payroll taxes that were due to the Internal Revenue Service.

In July 2004, we made the final payment to Zondervan for \$100,000 plus 5% simple interest. This payment completes all of our obligations that were previously outlined in the settlement with Zondervan and TLC dated October 2003. In addition, according to the settlement agreement, the term of the 1999 license has been effectively extended indefinitely. However, we continue to amortize the license using the 10 year economic life.

ITEM 3. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

Our CEO and CFO have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the fiscal quarter covered by this report on Form 10-QSB. Based on this evaluation, our CEO and CFO have concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods.

(b) Changes In Internal Control Over Financial Reporting.

Our CEO and CFO have evaluated changes made to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, as of the end of the fiscal quarter covered by this report on Form 10-QSB. Changes identified in connection with this evaluation include the following:

During the fiscal quarter covered by this report, our management made certain changes to our internal control over financial reporting in connection with our assessment of the adequacy of our reserve for rebates. Previously when assessing the adequacy of our reserve for rebates, we did not take into consideration the amount and number of outstanding checks, issued checks that were returned as undeliverable, or our ability to meet our recorded financial obligation. We have changed our internal control procedures to include a review of each of these factors in our assessment of the adequacy of the reserve for rebates.

Except as described above, there were no other changes in our internal control over financial reporting during the fiscal quarter ended June 30, 2004 that have materially affected, or would be reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

In March 2004, we finalized a joint settlement agreement with Zondervan and TLC in connection with a pending arbitration arising out of royalties owed to Zondervan under the terms of a certain software license agreement entered into in 1999. Pursuant to the settlement, we were required to make certain payments to Zondervan, which obligations, as of July 2004, were satisfied in full. A stipulation of such settlement has been duly entered and the matter has been discontinued.

There is no other litigation pending against us or any of our subsidiaries that is considered material or that constitutes more than ordinary routine litigation incidental to our business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On April 7, 2004, we issued 1,519,349 restricted shares of common stock, valued at \$0.022 per share, to our executive management team as payment of the 2003 accrued performance bonus. We did not recognize any additional expense in relation to this issuance.

On April 7, 2004, we issued a single unregistered warrant to Michael M. Membrado as compensation for legal services. The warrant entitles the holder, for a period of five years, to purchase up to an aggregate of 150,000 restricted shares of our common stock at a price of \$0.022 per share. We did not recognize any additional expense in relation to this issuance.

On April 28, 2004, we resolved to issue 637,500 restricted shares of common stock, valued at \$0.022 per share, to non-executive employees as additional compensation pursuant to an incentive and retention bonus program. Subsequently, in July 2004, we resolved to remove 2,500 restricted shares of common stock from the initial resolution due to the voluntary separation from service of a part-time employee. We recognized \$13,970 of expense in relation to this issuance.

On May 21, 2004 we issued a single unregistered warrant to Joseph Abrams, as compensation for corporate business planning, financing and merger and acquisition assistance. The warrant entitles the holder, for a period of three years to purchase up to an aggregate of 600,000 restricted shares of our common stock at a price of \$0.015 per share. We recognized \$59,915 of expense in relation to this issuance.

On June 4, 2004, we resolved to issue 324,074 restricted shares of common stock, valued at \$0.081 per share, to our outside Board of Directors as compensation, in lieu of cash and meeting fees, for the period from July 1, 2003 through August 31, 2004. We recognized \$26,250 of in expense relation to this issuance.

We relied in each case for these unregistered sales on the private offering exemption of Section 4(2) of the Securities Act and/or the private offering safe harbor provision of Rule 506 of Regulation D promulgated thereunder based on the following factors: (i) the number of offerees or purchasers, as applicable, (ii) the absence of general solicitation, (iii) representations obtained from the acquirors relative to their accreditation and/or sophistication (or from offeree or purchaser representatives, as applicable), (iv) the provision of appropriate disclosure, and (v) the placement of restrictive legends on the certificates reflecting the securities coupled with investment representations obtained from the acquirors. There were no underwriters or placement agents involved in any of these unregistered sales and no commissions were paid.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

There were no reportable events under this Item 3 during the quarterly period ended June 30, 2004.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no reportable events under this Item 4 during the quarterly period ended June 30, 2004.

ITEM 5. OTHER INFORMATION.

There were no reportable events under this Item 5 during the quarterly period ended June 30, 2004.

Table of Contents

ITEM 6. EXHIBITS.

No. Description of Exhibit

- 2.1 Share Exchange Agreement between Findex.com, Inc. and the stockholders of Reagan Holdings, Inc. dated March 7, 2000, incorporated by reference to Exhibit 2.1 on Form 8-K filed March 15, 2000.
- 3(i)(1) Articles of Incorporation of Findex.com, Inc., incorporated by reference to Exhibit 3.1 on Form 8-K filed March 15, 2000.
- 3(i)(1) Amendment to Articles of Incorporation of Findex.com, Inc. dated November 12, 2004 incorporated by reference to Exhibit 3.1(ii) on Form 10-QSB filed November 12, 2004.
- 3(i) By-Laws of Findex.com, Inc., incorporated by reference to Exhibit 3.3 on Form 8-K filed March 15, 2000.
- 10.1 Stock Incentive Plan of Findex.com, Inc. dated May 7, 1999, incorporated by reference to Exhibit 10.1 on Form 10-KSB/A filed May 13, 2004.
- 10.2 Share Exchange Agreement between Findex.com, Inc. and the stockholders of Reagan Holdings Inc., dated March 7, 2000, incorporated by reference to Exhibit 2.1 on Form 8-K filed March 15, 2000.
- 10.3 License Agreement between Findex.com, Inc. and Parsons Technology, Inc. dated June 30, 1999, incorporated by reference to Exhibit 10.3 on Form 10-KSB/A filed May 13, 2004.
- 10.4 Employment Agreement between Findex.com, Inc. and Steven Malone dated July 25, 2003, incorporated by reference to Exhibit 10.4 on Form 10-KSB/A filed May 13, 2004.
- 10.5 Employment Agreement between Findex.com, Inc. and Kirk Rowland dated July 25, 2003, incorporated by reference to Exhibit 10.5 on Form 10-KSB/A filed May 13, 2004.
- 10.6 Employment Agreement between Findex.com, Inc. and William Terrill dated June 7, 2002, incorporated by reference to Exhibit 10.6 on Form 10-KSB/A filed May 13, 2004.
- 10.7 Restricted Stock Compensation Agreement between Findex.com, Inc. and John A. Kuehne dated July 25, 2003, incorporated by reference to Exhibit 10.7 on Form 10-KSB/A filed May 13, 2004.
- 10.8 Restricted Stock Compensation Agreement between Findex.com, Inc. and Henry M. Washington dated July 25, 2003, incorporated by reference to Exhibit 10.8 on Form 10-KSB/A filed May 13, 2004.
- 10.9 Restricted Stock Compensation Agreement between Findex.com, Inc. and William Terrill dated July 25, 2003, incorporated by reference to Exhibit 10.9 on Form 10-KSB/A filed May 13, 2004.
- 10.10 Stock Purchase Agreement, including the form of warrant agreement, between Findex.com, Inc. and Barron Partners, LP dated July 19, 2004, incorporated by reference to Exhibit 10.1 on Form 8-K filed July 28, 2004.
- 10.11 Amendment No. 1 to Barron Partners, LP Stock Purchase Agreement dated September 30, 2004, incorporated by reference to Exhibit 10.3 on Form 8-K filed October 6, 2004.
- 10.12

Edgar Filing: FINDEX COM INC - Form 10QSB/A

Registration Rights Agreement between Findex.com, Inc. and Barron Partners, LP dated July 26, 2004, incorporated by reference to Exhibit 10.2 on Form 8-K filed July 28, 2004.

10.13 Waiver certificate between Findex.com, Inc. and Barron Partners, LP dated September 16, 2004, incorporated by reference to Exhibit 10.4 on Form 8-K filed October 6, 2004.

-9-

Table of Contents

- 31.1 Certification of Findex.com, Inc. Chief Executive Officer, Steven Malone, required by Rule 13a-14(a) or Rule 15d-14(a), and dated January 19, 2006. FILED HEREWITH.
- 31.2 Certification of Findex.com, Inc. Chief Financial Officer, Kirk R. Rowland, required by Rule 13a-14(a) or Rule 15d-14(a), and dated January 19, 2006. FILED HEREWITH.
- 32.1 Certification of Findex.com, Inc. Chief Executive Officer, Steven Malone, required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), and dated January 19, 2006. FILED HEREWITH.
- 32.2 Certification of Findex.com, Inc. Chief Financial Officer, Kirk R. Rowland, required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), and dated January 19, 2006. FILED HEREWITH.

Table of Contents

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**FINDEX.COM,
INC.**

| | |
|---------------------------|--|
| Date: January 19, 2006 | By/s/ Steven Malone Steven Malone President and Chief Executive Officer |
|---------------------------|--|

| | |
|---------------------------|---|
| Date: January 19, 2006 | By/s/ Kirk R. Rowland Kirk R. Rowland, CPA Chief Financial Officer |
|---------------------------|---|

Table of Contents