

FINDEX COM INC  
Form 10QSB/A  
September 29, 2005

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

**FORM 10-QSB/A  
Amendment No. 1**

(Mark One)

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

For the quarterly period ended September 30, 2002.

**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 (State or other jurisdiction of incorporation or organization)	88-0379462 (I.R.S. Employer Identification No.)
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11204 Davenport Street, Suite 100, Omaha, Nebraska (Address of principal executive offices)	68154     (Zip Code)
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(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 September 28, 2005.

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

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### Explanatory Note

We are filing this Amendment Number 1 to our Quarterly Report on Form 10-QSB for the three and nine months ended September 30, 2002 to restate our financial statements for the quarter then ended 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 1 to Form 10-QSB for the quarter ended September 30, 2002. There was no net effect on either cash provided or used by operating activities, cash used by investing activities or cash provided or used by financing activities as a result of the corrections to the financial statements for the period covered by the report.

In June 1999 we entered into a certain 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 months ended June 30, 2002, we offset the remaining unpaid installment under the 1999 license (\$1,051,785) against the carrying amount of the license in accordance with the terms of a then tentative settlement agreement with The Learning Company (“TLC”), the licensor-assignee at the time. Although paragraph 6 of Statement of Financial Accounting Standards (“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 elapsed between the date of the 1999 license and the date of the tentative settlement agreement for such an offset to be appropriate. Therefore, we have recognized the extinguishment of the liability owed to TLC as income in the condensed consolidated statement of operations for the period covered by this report. We have restated our condensed consolidated balance sheet as of September 30, 2002 and our condensed consolidated statements of operations and condensed consolidated statements of cash flows for the three and nine months then ended.

Also during the three months 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 the tentative settlement agreement. Although the 1999 license, as amended, provides for our unlimited and exclusive use of the trademarks related to the licensed products, and our management has assessed the useful life of the 1999 license as indefinite (though limited under the applicable contractual provisions to 50 years) based on the estimated future direct or indirect cash flows from the license, as provided by 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 based, among other reasons, on our going concern qualification. We have restated our condensed consolidated balance sheet as of September 30, 2002 and our condensed consolidated statements of operations and condensed consolidated statements of cash flows for the three and nine months then ended.

Finally, we had previously and erroneously, included rebates in sales and marketing expenses. The more appropriate presentation should have been, and is now, as a reduction to revenue, as provided by EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*. As provided by paragraph 12 of EITF 01-09, comparative periods presented for the three and nine months ended September 30, 2001 have been reclassified to conform with the 2002 presentation.

A discussion of the restatement for the quarter ended September 30, 2002 is included in Note 13 of the condensed consolidated financial statements included in this Amendment Number 1 to Form 10-QSB for the quarter ended September 30, 2002. Changes have also been made to the following items as a result of the restatement:

#### Part I Item 1 Financial Statements.

##### Item 2 Management's Discussion and Analysis of Financial Condition or Plan of Operations.

This Amendment Number 1 to Form 10-QSB for the quarter ended September 30, 2002 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, please see

our Annual Report on Form 10-KSB/A for the year ended December 31, 2004.

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

**Findex.com, Inc.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	(Unaudited)	
	(Restated)	
	September	(Restated)
	30, 2002	December
	31, 2001	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 24,405	\$ 7,140
Accounts receivable, trade	306,690	460,170
Inventory	533,357	646,246
Other current assets	34,657	21,468
Total current assets	899,109	1,135,024
Property and equipment, net	102,100	92,185
Software license, net	3,398,674	3,776,306
Other assets	20,298	12,558
Total assets	\$ 4,420,181	\$ 5,016,073
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Notes payable	\$ 749,999	\$ 749,000
License fees payable	---	1,051,785
Accrued royalties	2,091,422	2,082,694
Accounts payable, trade	1,034,541	1,422,573
Current maturities of long-term notes payable	55,877	---
Other current liabilities	1,248,542	1,490,462
Total current liabilities	5,180,381	6,796,514
Long-term note payable	63,726	71,322
Non-current deferred taxes	994,469	1,147,043
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	51	51
Common stock	19,575	11,231
Paid-in capital	7,016,308	6,893,720
Retained (deficit)	(8,854,329)	(9,903,808)
Total stockholders' equity	(1,818,395)	(2,998,806)
Total liabilities and stockholders' equity	\$ 4,420,181	\$ 5,016,073

*See accompanying notes.*

**Findex.com, Inc.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**Three and Nine Months Ended September 30**

	Three Months		Nine Months	
	2002 (Restated)	2001 (Restated)	2002 (Restated)	2001 (Restated)
Revenues, net of reserves and allowances	\$ 873,813	\$ 465,713	\$ 2,931,792	\$ 1,980,466
Cost of sales	245,656	164,879	584,497	804,608
Gross profit	628,157	300,834	2,347,295	1,175,858
Operating expenses:				
Sales and marketing	202,383	159,374	620,994	486,630
General and administrative	436,868	516,514	1,383,640	2,066,058
Bad debt expense	---	---	---	2,391,000
Depreciation and amortization	139,951	133,346	408,353	401,404
Total operating expenses	779,202	809,234	2,412,987	5,345,092
Earnings (loss) from operations	(151,045)	(508,400)	(65,692)	(4,169,234)
Other income	191	150	1,051,976	2,791
Other expenses, net	(25,276)	(27,467)	(89,379)	(48,166)
Income (loss) before income taxes	(176,130)	(535,717)	896,905	(4,214,609)
Provision for income taxes	50,858	102,027	152,574	851,479
Net income (loss)	\$ (125,272)	\$ (433,690)	1,049,479	(3,363,130)
Retained earnings (deficit) at beginning of year			(9,903,808)	(2,299,256)
Preferred series A common stock dividend			---	(4,200)
Retained earnings (deficit) at end of period			\$ (8,854,329)	\$ (5,666,586)
Net earnings (loss) per share:				
Basic	\$ (0.01)	\$ (0.04)	\$ 0.06	\$ (0.32)
Diluted	\$ (0.01)	\$ (0.04)	\$ 0.06	\$ (0.32)
Weighted average shares outstanding:				
Basic	19,430,789	10,656,341	16,891,916	10,585,742
Diluted	19,430,789	10,656,341	19,160,539	10,585,742

*See accompanying notes.*

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

<b>Nine Months Ended September 30</b>	<b>2002</b>	<b>2001</b>
	<b>(Restated)</b>	<b>(Restated)</b>
Cash flows from operating activities:		
Cash received from customers	\$ 2,928,098	\$ 2,769,535
Cash paid to suppliers and employees	(2,755,439)	(2,786,032)
Other operating activities, net	(42,606)	(45,378)
Net cash provided (used) by operating activities	130,053	(61,875)
Cash flows from investing activities:		
Acquisition of property and equipment	(43,581)	(14,243)
Other investing activities, net	(4,660)	(15,600)
Net cash (used) by investing activities	(48,241)	(29,843)
Cash flows from financing activities:		
Proceeds from (payments on) line of credit, net	(4,682)	32,708
Payments made on long-term notes payable	(34,865)	---
Refund on stock subscription	(25,000)	---
Proceeds from issuance of stock	---	15,000
Addition to license agreements	---	25,073
Net cash provided (used) by financing activities	(64,547)	72,781
Net increase (decrease) in cash and cash equivalents	17,265	(18,937)
Cash and cash equivalents, beginning of year	7,140	21,768
Cash and cash equivalents, end of period	\$ 24,405	\$ 2,831
Reconciliation of net income (loss) to cash flows from operating activities:		
Net income (loss)	\$ 1,049,479	\$ (3,363,130)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Stock and warrants issued for services	155,932	302,183
Provision for bad debts	---	2,391,000
Depreciation & amortization	408,353	401,404
Gain on disposal of property and equipment	(137)	---
Debt forgiveness	(1,051,785)	---
Change in assets and liabilities:		
Decrease in accounts receivable	153,480	822,299
Decrease in inventories	112,889	114,902
(Increase) in refundable income taxes	---	(1,548)
(Increase) in prepaid expenses	(16,461)	(25,282)
Increase in accrued royalties	8,728	258,600
Increase (decrease) in accounts payable	(304,885)	383,736
(Decrease) in income taxes payable	---	(42,556)
(Decrease) in deferred taxes	(152,574)	(843,000)
(Decrease) in other liabilities	(232,966)	(460,483)
Net cash provided (used) by operating activities	\$ 130,053	\$ (61,875)

*See accompanying notes.*

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**FindEx.com, Inc.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2002**  
**(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. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Examples include provisions for returns, bad debts, and income taxes along with the realizability of the deferred tax assets. Actual results may differ from these estimates. 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 for the fiscal year ended December 31, 2001.

**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 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. The Company generally considers technological feasibility is established with the release of a beta version for testing. Total capitalized software development costs at September 30, 2002 were \$185,964, including \$91,509 capitalized during the three months ended September 30, 2002, less accumulated amortization of \$19,907. Research and development costs incurred and charged to expense were \$15,583 and \$-0- for the three months ended September 30, 2002 and 2001, respectively.

**NOTE 2 - SOFTWARE LICENSE AGREEMENT (Restated)**

During the quarter ended June 30, 2002, the Company reclassified the remaining unpaid installment (\$1,051,785) as debt extinguishment income in accordance with the terms of a tentative settlement agreement with TLC. In addition, the agreement called for the extension of the estimated life of the license from 10 years to 50 years. Management, however, has decided to retain the original 10 year life based on our going concern opinion. See Notes 9 and 13.

**NOTE 3 - NOTES PAYABLE (Restated)**

At September 30, 2002, notes payable consisted of the following:

Demand note payable to a corporation, with interest at 9%. Unsecured.	\$ 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 666,667 restricted common shares.	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 666,667 restricted common shares. 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 666,667 restricted common shares. 33,333  
\$ 749,999

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**NOTE 4 - LONG-TERM NOTES PAYABLE**

On January 31, 2002, the Company refinanced \$154,468 of trade accounts payable by issuing a long-term note payable to a corporation. The term note is unsecured and due October 2004 in monthly installments of \$5,285, including interest at 8%.

Principal maturities at September 30, 2002 are as follows:

<b>September 30</b>	
2003	\$ 55,877
2004	63,726
	\$ 119,603

**NOTE 5 - STOCKHOLDERS' EQUITY****Common Stock**

On March 7, 2002, pursuant to a settlement agreement, the Company issued an additional six common shares for each common share originally issued under the stock subscription agreement dated April 28, 2000. A total of 2,175,000 common shares were issued under this settlement agreement. On September 20, 2002, the Company issued 9,000 common shares correcting an error in the March issuance.

On April 1, 2002, the Company issued 5,891,760 restricted common shares to the employees and Board of Directors as additional compensation pursuant to an incentive and retention bonus program. On August 7, 2002, the Company rescinded 64,480 restricted common shares previously issued to part-time employees under the incentive and retention bonus program. These shares were valued at \$.025 per share.

On July 23, 2002, in settlement of a consulting agreement with an individual for investor relations services, the Company issued 205,000 common shares valued at \$.05 per share.

On September 20, 2002, pursuant to a settlement agreement, the Company issued an additional six common shares for each common share originally issued in lieu of cash commission under the stock subscription agreement dated April 28, 2000. A total of 137,250 common shares were issued under this settlement agreement.

**NOTE 6 - INCOME TAXES (Restated)**

The benefit for taxes on income for the three and nine months ended September 30 consisted of the following:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>(Restated)</b>		<b>(Restated)</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Current:				
Federal	\$ ---	\$ ---	\$ ---	\$ ---
State	---	(5,973)	---	8,479
		(5,973)		8,479
Deferred:				
Federal	<b>40,699</b>	81,250	<b>122,097</b>	632,250
State	<b>10,159</b>	26,750	<b>30,477</b>	210,750
	<b>50,858</b>	108,000	<b>152,574</b>	843,000

Total tax benefit	\$	<b>50,858</b>	\$ 102,027	\$	<b>152,574</b>	\$ 851,479
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**NOTE 7 - EARNINGS PER COMMON SHARE (Restated)**

Earnings per common share are computed by dividing net income (loss) 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, assuming that the Company reinvested the proceeds to purchase additional shares at market value. A total of 6,092,200 and 3,808,200 potentially dilutive securities for the three and nine months ended September 30, 2002, respectively, and 4,237,200 potentially dilutive securities for the three and nine months ended September 30, 2001, 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 (loss) and the average number of shares of dilutive potential common stock:

<b>For the Three Months Ended September 30, 2001</b>	<b>Income (Loss) (Numerator)</b>	<b>Shares (Denominator)</b>	<b>Per-share Amount</b>
Net Loss	\$ (433,690)		
Less preferred stock dividends	(4,200)		
Loss available to common stockholders-basic earnings per share	(437,890)	10,656,341	\$ (0.04)
Effect of Dilutive Securities			
Options	---	---	
Convertible notes payable	---	---	
Convertible Preferred Series A	---	---	
Convertible Preferred Series B	---	---	
Warrants	---	---	
Loss available to common stockholders-diluted earnings per share	\$ (437,890)	10,656,341	\$ (0.04)

<b>For the Three Months Ended September 30, 2002</b>	<b>Income (Loss) (Numerator)</b>	<b>Shares (Denominator)</b>	<b>Per-share Amount</b>
Net Loss (restated)	\$ (125,272)		
Less preferred stock dividends	---		
Loss available to common stockholders-basic earnings per share	(125,272)	19,430,789	\$ (0.01)
Effect of Dilutive Securities			
Options	---	---	
Convertible notes payable	---	---	
Convertible Preferred Series A	---	---	
Convertible Preferred Series B	---	---	
Warrants	---	---	
Loss available to common stockholders-diluted earnings per share	\$ (125,272)	19,430,789	\$ (0.01)

<b>For the Nine Months Ended September 30, 2001</b>	<b>Income (Loss) (Numerator)</b>	<b>Shares (Denominator)</b>	<b>Per-share Amount</b>
Net Loss	\$ (3,363,130)		
Less preferred stock dividends	(4,200)		

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Loss available to common stockholders-basic earnings per share	(3,367,330)	10,585,742 \$	(0.32)
Effect of Dilutive Securities			
Options	---	---	
Convertible notes payable	---	---	
Convertible Preferred Series A	---	---	
Convertible Preferred Series B	---	---	
Warrants	---	---	
Income available to common stockholders-diluted earnings per share \$	(3,367,330)	10,585,742 \$	(0.32)

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<b>For the Nine Months Ended September 30, 2002</b>	<b>Income (Loss) (Numerator)</b>	<b>Shares (Denominator)</b>	<b>Per-share Amount</b>
Net Income (restated)	\$ 1,049,479		
Less preferred stock dividends	---		
Income available to common stockholders-basic earnings per share	1,049,479	16,891,916	\$ 0.06
Effect of Dilutive Securities			
Options	---	---	
Convertible notes payable	16,584	2,000,000	
Convertible Preferred Series A	---	114,000	
Convertible Preferred Series B	---	40,000	
Warrants (restated)	---	114,623	
Income available to common stockholders-diluted earnings per share	\$ 1,066,063	19,160,539	\$ 0.06

#### **NOTE 8 - SUPPLEMENTAL CASH FLOW INFORMATION**

The Company incurred the following non-cash investing and financing activities during the nine months ended September 30, 2002 and 2001, respectively:

	<b>2002</b>	2001
Common stock and warrants issued for services	<b>\$ 155,932</b>	\$ 302,183
Common stock dividend	---	4,200
Conversion of preferred stock to common stock	---	32

#### **NOTE 9 - COMMITMENTS AND CONTINGENCIES**

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company.

On November 14, 2001, The Zondervan Corporation elected to enforce a court order and served notice that we cease selling, marketing and manufacturing all products containing their copyrighted material. We are abiding by the court order and are no longer shipping products containing Zondervan's copyrighted material. We are continuing negotiations with Zondervan to reach a settlement that will allow us to resume shipment of those products. Company management believes the amount of any potential loss cannot be reasonably estimated.

The Company has reached tentative settlement in a dispute with TLC over various provisions of several agreements, including the software license agreement. Ultimate disposition of this tentative settlement is contingent upon settlement of negotiations with The Zondervan Corporation. Company management believes the amount of any potential loss cannot be reasonably estimated.

On September 6, 2002, Swartz Private Equity, LLC provided notice that it was making a demand under the Equity Line Agreement for the termination fee provided thereunder in the amount of \$150,000. We are currently disputing this amount and have entered into settlement discussions with them. Ultimate disposition is uncertain and management believes the amount of any potential loss cannot be reasonably estimated at this time.

#### **NOTE 10 - RISKS AND UNCERTAINTIES**

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

#### **NOTE 11 - GOING CONCERN**

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has a history of operating losses, a negative current ratio and total liabilities in excess of total assets. Those factors, as well as uncertainty in securing financing for continued operations, uncertainty related to the outcomes of disputes with Zondervan and TLC, and the uncertainty related to renegotiation of the demand notes payable, create an uncertainty about the Company's ability to continue as a going concern. Management of the Company has developed a plan to reduce its liabilities through sales of a new release of one of the Company's flagship software titles. The ability of the Company to continue as a going concern is dependent on the acceptance of the plan by the Company's creditors, the plan's success, and the renegotiation of the demand notes payable. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### **NOTE 12 - SUBSEQUENT EVENT**

On October 17, 2002, pursuant to a settlement agreement for unpaid consulting and valuation services, the Company issued 296,308 common shares valued at \$.03 per share.

#### **NOTE 13 - RESTATEMENT AND RECLASSIFICATION**

The Company has restated its financial statements for the three and nine months ended September 30, 2002 to correct errors identified during a regulatory review of our financial statements 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 1 to Form 10-QSB for the quarter ended September 30, 2002. There was no net effect on cash provided or used by operating activities, cash used by investing or cash provided or used by financing activities as a result of these errors.

During the three month period ended June 30, 2002, we erroneously offset the remaining unpaid installment (\$1,051,785) against the carrying amount of the 1999 software license in accordance with the terms of the tentative settlement agreement with 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 assets in which the consideration given is cash are measured by the amount of cash paid, our management believes that too much time had passed between the date of the agreement (June 1999) and the date of the tentative settlement (May 2002) for such an offset to be appropriate. The Company has recognized the extinguishment of the liability owed to TLC as income in the statement of operations. In accordance, we have restated the condensed consolidated balance sheet as of September 30, 2002 and the condensed consolidated statements of operations and condensed consolidated statements of cash flows for the three and nine months then ended.

Also during the three month period ended June 30, 2002, we had erroneously extended the estimated life of the 1999 software license from 10 years to 50 years in accordance with the terms of the tentative settlement agreement with TLC. Although the 1999 software license provides for the unlimited and exclusive use of the trademarks related to the licensed products, and our management has assessed the useful life of the 1999 software license as indefinite, (though limited under the applicable contractual provisions to 50 years) based on the estimated future direct or indirect cash

flows from the license, as provided by paragraphs 53 and 11 of SFAS No. 142, *Goodwill and Other Intangible Assets*, our management believes a 10 year life is appropriate based, among other reasons, on our going concern qualification. In accordance, we have restated the condensed consolidated balance sheet as of September 30, 2002 and the condensed consolidated statements of operations and condensed consolidated statements of cash flows for the three and nine months then ended.

Finally, we had previously and erroneously, included rebates in sales and marketing expenses. The more appropriate presentation should have been, and is now, as a reduction to revenue, as provided by EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*. As provided by paragraph 12 of EITF 01-09, comparative periods presented for the three and nine months ended September 30, 2001 have been reclassified to conform with the 2002 presentation.

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

**Findex.com, Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
**September 30, 2002**

	As Previously Reported	As Restated	Change
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 24,405	\$ 24,405	\$ ---
Accounts receivable, trade	306,690	306,690	---
Inventories	533,357	533,357	---
Other current assets	34,657	34,657	---
Total current assets	899,109	899,109	---
Property and equipment, net	102,100	102,100	---
Software license, net	2,571,145	3,398,674	827,529 (a)
Other assets	20,298	20,298	---
Total assets	\$ 3,592,652	\$ 4,420,181	\$ 827,529
<b>Liabilities and stockholders' equity</b>			
Current liabilities:			
Accounts payable, trade	\$ 1,133,489	\$ 1,034,541	\$ (98,948) (b)
Notes payable	749,999	749,999	---
Accrued royalties	2,091,422	2,091,422	---
Accrued expenses	2,341,585	1,248,542	(1,093,043) (c)
Current maturities of long-term debt	55,877	55,877	---
Total current liabilities	6,372,372	5,180,381	(1,191,991)
Long-term note payable	63,726	63,726	---
Deferred income taxes, net	---	994,469	994,469 (d)
Stockholders' equity:			
Preferred stock, \$.001 par value	51	51	---
Common stock, \$.001 par value	19,575	19,575	---
Paid-in capital	7,016,308	7,016,308	---
Retained (deficit)	(9,879,380)	(8,854,329)	1,025,051
Total stockholders' equity	(2,843,446)	(1,818,395)	1,025,051
Total liabilities and stockholders' equity	\$ 3,592,652	\$ 4,420,181	\$ 827,529

(a) Increased by \$1,051,785 reclassification of forgiven final installment payment and decreased by \$224,256 additional amortization from reducing the estimated useful life from 50 years to 10 years.

(b) Decreased by \$98,948 from 2000 overstatement of trade payable to third-party rebate processor.

(c) Decreased by \$1,093,043 for reclassification of deferred income taxes as non-current.

(d) Increased by \$994,469 for recalculation of deferred income taxes resulting from reclassification of forgiven final installment payment and additional amortization from reducing the estimated useful life of the software license.

**Findex.com, Inc.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Nine Months Ended September 30, 2002**

	As Previously Reported	As Restated	Change
Revenues, net of reserves and allowances	\$ 2,932,466	\$ 2,931,792	\$ (674) (a)
Cost of sales	572,201	584,497	12,296 (b)
Gross profit	2,360,265	2,347,295	(12,970)
Operating expenses:			
Sales and marketing	633,964	620,994	(12,970)
General and administrative	1,383,640	1,383,640	---
Depreciation and amortization	184,098	408,353	224,255 (c)
Total operating expenses	2,201,702	2,412,987	211,285
Earnings from operations	158,563	(65,692)	(224,255)
Other income	191	1,051,976	1,051,785 (d)
Other expenses, net	(89,379)	(89,379)	---
Income before income taxes	69,375	896,905	827,530
Provision for income taxes	54,000	152,574	98,574 (e)
Net income	\$ 123,375	\$ 1,049,479	\$ 926,104
Net earnings per share:			
Basic	\$ 0.01	\$ 0.06	\$ 0.05
Diluted	\$ 0.01	\$ 0.06	\$ 0.05
Weighted average shares outstanding:			
Basic	16,891,916	16,891,916	---
Diluted	19,025,916	19,160,539	134,623

(a) Decrease from reclassification of rebates from sales and marketing.

(b) Increase from reclassification of fulfillment expenses from sales and marketing.

(c) Increase from reducing the estimated useful life of the software license from 50 years to 10 years.

(d) Increased by \$1,051,785 reclassification of forgiven final installment payment.

(e) Increased from recalculation of deferred income taxes resulting from reclassification of forgiveness of final installment of the software license and reduction of the estimated useful life from 50 years to 10 years.

**Findex.com, Inc.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three Months Ended September 30, 2002**

	As Previously Reported	As Restated	Change	
Revenues, net of reserves and allowances	\$ 873,705	\$ 873,813	\$ 108	(a)
Cost of sales	233,360	245,656	12,296	(b)
Gross profit	640,345	628,157	(12,188)	
Operating expenses:				
Sales and marketing	214,571	202,383	(12,188)	
General and administrative	436,868	436,868	---	
Depreciation and amortization	27,518	139,951	112,433	(c)
Total operating expenses	678,957	779,202	100,245	
Earnings (loss) from operations	(38,612)	(151,045)	(112,433)	
Other income	191	191	---	
Other expenses, net	(25,276)	(25,276)	---	
Loss before income taxes	(63,697)	(176,130)	(112,433)	
Provision for income taxes	18,000	50,858	32,858	(d)
Net loss	\$ (45,697)	\$ (125,272)	\$ (79,575)	
Net earnings (loss) per share:				
Basic	\$ (0.00)	\$ (0.01)	\$ (0.01)	
Diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	
Weighted average shares outstanding:				
Basic	19,430,789	19,430,789	---	
Diluted	19,430,789	19,430,789	---	

(a) Increase from reclassification of rebate adjustment from sales and marketing.

(b) Increase from reclassification of fulfillment expenses from sales and marketing.

(c) Increase from reducing the estimated useful life of the software license from 50 years to 10 years.

(d) Increased from recalculation of deferred income taxes resulting from reclassification of forgiveness of final installment of the software license and reduction of the estimated useful life from 50 years to 10 years.

**Findex.com, Inc.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Nine Months Ended September 30, 2001**

	As Previously Reported	As Restated	Change
Revenues, net of reserves and allowances	\$ 2,172,211	\$ 1,980,466	\$ (191,745) (a)
Cost of sales	804,608	804,608	---
Gross profit	1,367,603	1,175,858	(191,745)
Operating expenses:			
Sales and marketing	678,375	486,630	(191,745) (a)
General and administrative	2,066,058	2,066,058	---
Bad debt expense	2,391,000	2,391,000	---
Depreciation and amortization	401,404	401,404	---
Total operating expenses	5,536,837	5,345,092	(191,745)
Earnings (loss) from operations	(4,169,234)	(4,169,234)	---
Other income	2,791	2,791	---
Other expenses, net	(48,166)	(48,166)	---
Loss before income taxes	(4,214,609)	(4,214,609)	---
Provision for income taxes	851,479	851,479	---
Net loss	\$ (3,363,130)	\$ (3,363,130)	\$ ---
Net earnings(loss) per share:			
Basic	\$ (0.32)	\$ (0.32)	\$ ---
Diluted	\$ (0.32)	\$ (0.32)	\$ ---
Weighted average shares outstanding:			
Basic	10,585,742	10,585,742	---
Diluted	10,585,742	10,585,742	---

(a)Decrease from reclassification of rebates from sales and marketing.

**Findex.com, Inc.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three Months Ended September 30, 2001**

	As Previously Reported	As Restated	Change
Revenues, net of reserves and allowances	\$ 465,713	\$ 465,713	\$ ---
Cost of sales	164,879	164,879	---
Gross profit	300,834	300,834	---
Operating expenses:			
Sales and marketing	159,374	159,374	---
General and administrative	516,514	516,514	---
Depreciation and amortization	133,346	133,346	---
Total operating expenses	809,234	809,234	---
Earnings (loss) from operations	(508,400)	(508,400)	---
Other income	150	150	---
Other expenses, net	(27,467)	(27,467)	---
Loss before income taxes	(535,717)	(535,717)	---
Provision for income taxes	102,027	102,027	---
Net loss	\$ (433,690)	\$ (433,690)	\$ ---
Net earnings (loss) per share:			
Basic	\$ (0.04)	\$ (0.04)	\$ ---
Diluted	\$ (0.04)	\$ (0.04)	\$ ---
Weighted average shares outstanding:			
Basic	10,656,341	10,656,341	---
Diluted	10,656,341	10,656,341	---

**Findex.com, Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2002**

	As Previously Reported	As Restated	Change
Cash flows from operating activities:			
Cash received from customers	\$ 2,928,098	\$ 2,928,098	\$ ---
Cash paid to suppliers and employees	(2,755,439)	(2,755,439)	---
Interest paid	(42,660)	(42,660)	---
Interest received	54	54	---
Net cash provided by operating activities	130,053	130,053	---
Cash flows from investing activities:			
Acquisition of property and equipment	(43,581)	(43,581)	---
Proceeds from sale of property and equipment	4,000	4,000	---
Deposits made	(6,208)	(6,208)	---
Website development costs	(2,452)	(2,452)	---
Net cash (used) by investing activities	(48,241)	(48,241)	---
Cash flows from financing activities:			
Proceeds from (payments on) line of credit, net	(4,682)	(4,682)	---
Payments made on long-term notes payable	(34,865)	(34,865)	---
Refund on stock subscription	(25,000)	(25,000)	---
Net cash (used) by financing activities	(64,547)	(64,547)	---
Net increase in cash and cash equivalents	17,265	17,265	---
Cash and cash equivalents, beginning of year	7,140	7,140	---
Cash and cash equivalents, end of year	\$ 24,405	\$ 24,405	\$ ---
Reconciliation of net income to cash flows from operating activities:			
Net income	\$ 123,375	\$ 1,049,479	\$ 926,104

Adjustments to reconcile net income to net cash provided by operating activities:				
Stock and warrants issued for services	155,932	155,932	---	
Depreciation & amortization	184,098	408,353	224,255	(a)
Gain on disposal of property and equipment	(137)	(137)	---	
Debt forgiveness	---	(1,051,785)	(1,051,785)	(b)
Change in assets and liabilities:				
Decrease in accounts receivable	153,480	153,480	---	
Decrease in inventories	112,889	112,889	---	
Increase in prepaid expenses	(16,461)	(16,461)	---	
Increase in accrued royalties	8,728	8,728	---	
(Decrease) in accounts payable	(304,885)	(304,885)	---	
(Decrease) in deferred taxes	(54,000)	(152,574)	(98,574)	(c)
(Decrease) in other liabilities	(232,966)	(232,966)	---	
Net cash provided by operating activities	\$ 130,053	\$ 130,053	\$ ---	

(a) Increase from reducing the estimated useful life of the software license from 50 years to 10 years.

(b) Increased by \$1,051,785 reclassification of forgiven final installment payment.

(c) Increased from recalculation of deferred income taxes resulting from reclassification of forgiveness of final installment of the software license and reduction of the estimated useful life from 50 years to 10 years.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATIONS**

### **Forward-Looking Statements**

This report on Form 10-QSB includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We identify forward-looking statements in this report by using words or phrases such as "anticipate," "believe," "estimate," "expect," "intend," "may be," "objective," "plan," "predict," "project," and "will be" and similar words or phrases, or the negative thereof. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products and services, anticipated market performance and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, we caution readers that a variety of factors could cause our actual results to differ materially from the anticipated results or other expressed in our forward-looking statements. These risks and uncertainties, many of which are beyond our control, include (i) As of September 30, 2002, our current liabilities exceeded our current assets by \$4,281,272 and our auditors included a "going concern" footnote in our audited financial statements for our last fiscal year ended December 31, 2001, (ii) we are currently in arrears in the payment of approximately \$230,000 of payroll taxes, (iii) the outcome of our pending litigation with The Zondervan Corporation, (iv) the sufficiency of our existing capital resources and our ability to raise additional capital to fund cash requirements for future operations, (v) our ability to meet ongoing royalty payments owed, (vi) our ability to sustain sales of major product lines notwithstanding the removal of certain highly acknowledged and popular content, (vii) our dependence on third parties to fulfill a significant portion of our orders, (viii) uncertainties involved in our ability to introduce new products, (ix) our ability to retain key executives and other personnel, (x) product returns exceed reserves, (xi) potential infringement of the intellectual property rights of others, and (xii) general economic conditions as well as the other risks identified under the Section entitled "CAUTIONARY STATEMENTS AND RISK FACTORS" in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001. Readers are encouraged to carefully review the risk factors contained therein.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot give any assurance that such expectations reflected in these forward-looking statements will prove to have been correct.

We cannot guarantee any future results, levels of activity, performance or achievements. 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 are a developer, publisher, distributor and supplier of "inspirational" and Christian faith-based, off-the-shelf software products to individuals and religious and other spiritual organizations including schools, churches and other faith-based ministries.

Our business plan is focused on fulfilling our objective of becoming the premier provider of Bible study and related software products and content to the domestic and international markets, through both acquiring established companies and ongoing internal development of new products and expanded content of existing products. Our religious software titles are divided among six categories: (i) QuickVerse/Bible Study, (ii) Financial/Office Management Products for Churches and other Christian Faith-Based Ministries, (iii) Print & Graphic Products, (iv) Pastoral Products, (v) Children's Products, and (vi) Language Tutorial Products.

At the retail level, we sell our software products to thousands of retail stores across the United States, many of which are members of the Christian Bookseller's Association ("CBA"). These stores vary from small, family-owned Christian bookstores to large chain bookstores such as LifeWay Christian Stores, Family Christian Stores and Berean Christian Stores. We face the continuing challenge of reaching these stores on a consistent basis to keep them informed of new releases, promotional offers, etc. In addition to advertising in trade publications and maintaining visibility at CBA trade shows and events, we believe that it is critical to be in direct personal contact with each customer routinely in order to maintain or increase our market position. Towards that end, our sales representatives are expected to contact each of our customers as well as each of the 3,500 independent stores, some of which are not yet our customers, at least once each calendar quarter and present them with the latest in our products and promotions. We believe our personalized approach to marketing provides us with an edge over our competition, which we believe rely predominantly on advertising to maintain and develop their relations with CBA customers.

In addition to retail sales, we also sell our software at the wholesale level to a number of distributors around the world. We currently sell to distributors in Canada, New Zealand, Australia, Malaysia, South Africa, South Korea, Germany, the United Kingdom, Singapore and the United States. These distributors, in turn, sell our QuickVerse/Bible study packages and our Membership Plus packages into both Christian and large, national secular retail outlets that sell off-the-shelf consumer software packages, such as Best Buy, CompUSA, Circuit City, Office Depot and Staples. In the secular retail market, we continue to be a top seller of Bible study software and are developing additional product offerings and promotions to grow our market share.

On the Internet level, we are currently marketing our products through our [www.findex.com](http://www.findex.com), [www.quickverse.com](http://www.quickverse.com), and [www.parsonschurch.com](http://www.parsonschurch.com) websites. These sites provide customers across the United States and around the world the ability to purchase our software. We anticipate Internet orders will continue to increase as we expand our software product base and enhance our marketing efforts in this area.

We are also marketing our products directly to the consumer through catalog, email and other direct offerings. In the past, we utilized the strength of TLC direct marketing and sales force. We are currently experimenting with various direct marketing organizations and expanding our efforts internally. We anticipate an increase during the upcoming year in our direct marketing sales initiatives.

All of our direct-to-consumer sales are currently fulfilled by us out of our warehouse located in Omaha, Nebraska and our boxed retail sales are fulfilled by a third-party fulfillment company, also located in Omaha, Nebraska.

Since we acquired the Parsons Church Division from Mattel in June 1999, we have experienced inconsistent growth. We expanded our presence in the CBA marketplace by increasing the frequency of customer contact by our sales representatives and by adding products desired by their customer base. We lost our presence in the secular retail marketplace, however, when, in March 2000, TLC announced their decision to reduce their workforce and their line of software products promoted into the secular market. Since then, though, we have not only re-established our presence in the secular retail market by focusing time, talent and resources, we have expanded that presence beyond what it had previously been.

We continue to aggressively pursue our objective of becoming the premier provider of Bible study and related products and content to the domestic and international markets, and to explore additional technologies, products and services that are complementary to the affinity group we already serve. We have developed two (2) enhanced releases of our flagship product, QuickVerse, one (1) new product targeted mainly to the secular market, QuickVerse Essentials, two (2) enhanced releases of our top financial and data management product, Membership Plus, and one (1) new financial product, Fund Accounting Plus. In October 2001, we released the Complete Bible Resource Library, a software program that contains Bible translations, Bible reference tools, multimedia programs, Christian clip-art images and interactive children's games. In October 2002, we released Fund Accounting Plus, a modular-based fund accounting software program designed to serve the unique accounting needs of the churches, para-church organizations and ministries, and non-profit entities. We are currently researching new opportunities in technology for our existing software titles and expanding our financial product line.

## **RESULTS OF OPERATIONS**

Our software products have a significant seasonality to their revenues. More than 50% of our annual sales have historically occurred in the five months of September through January; the five months of April through August have historically been the weakest generating only about 33% of our annual sales. Though we expect this seasonality to continue to a degree, we have seen this fluctuation even out through our shift in sales focus from the retail store and distributor to the end user. We continue to pursue opportunities that will bring consistency and growth to our quarterly sales efforts.



Our net income increased approximately \$309,000 from a net loss of approximately \$434,000 for the three months ended September 30, 2001 to a net loss of approximately \$125,000 for the three months ended September 30, 2002 and increased approximately \$4,413,000 from a net loss of approximately \$3,363,000 for the nine months ended September 30, 2001 to net income of approximately \$1,050,000 for the nine months ended September 30, 2002. Our earnings before interest, taxes, depreciation, and amortization (EBITDA) increased approximately \$364,000 from a loss of approximately \$375,000 for the three months ended September 30, 2001 to a loss of approximately \$11,000 for the three months ended September 30, 2002 and increased approximately \$5,160,000 from a loss of approximately \$3,765,000 for the nine months ended September 30, 2001 to income of approximately \$1,395,000 for the nine months ended September 30, 2002. The income for the three and nine months ended September 30, 2002 includes \$145,682 in non-cash expenses related to 5,827,280 restricted common shares issued to employees and directors as an incentive and retention bonus program. This increase in our net and our EBITDA is directly attributable to changing our sales focus and making several cost savings decisions. We changed our focus to concentrate on upgrade sales and non-royalty sales direct to the end user. We also reduced our workforce by approximately 50% in November of 2001, closed our sales office in Cedar Rapids, Iowa, and increased our profit margin by focusing on the upgrade and direct sales aspect of our business. In addition, we released Membership Plus Deluxe, version 7 in May 2002. Finally, we recognized \$2,391,000 in bad debt expense during the three months ended September 30, 2001. We plan to continue increasing the direct sales portion of our business as a percentage of our total sales.

## Revenues

We recognize software revenue net of estimated returns and allowances for returns, price discounts and rebates, upon shipment of product, which is when title passes, provided that collection of the resulting receivable is probable and we have no significant remaining obligations. Revenue from inventory out on consignment is recognized when the consignee sells the product. Revenue associated with advance payments from customers is deferred until products are shipped. Revenue for software distributed electronically via the Internet is recognized upon delivery.

Product return reserves are based upon a percentage of total retail and direct sales for the period and may increase or decrease as actual returns are processed. 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. 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 that we have with each distributor or reseller. 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 30 days of purchase and are issued a cash refund.

Software products are sold separately, without future performance such as upgrades or maintenance, and are sold with post contract customer support (PCS) services, 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 revenue associated with sales of these products, since the cost of providing this free technical support is insignificant. We accrue the estimated associated costs of providing this free support upon product shipment. We also offer several plans under which customers are charged for technical support assistance. For plans where we collect fees in advance, we recognize revenue over the period of service, which is generally one year.

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 \$451,000 from \$549,671 for the three months ended September 30, 2001 to \$1,000,339 for the three months ended September 30, 2002, and increased approximately \$570,000 from \$2,646,131 for the nine months ended September 30, 2001 to \$3,216,545 for the nine months ended September 30, 2002. Such

increase was partially due to the company's introduction of a new release of Membership Plus during the second quarter of 2002.

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Historically, we have reproduced and distributed the Zondervan NIV Bible pursuant to a content licensing agreement with The Zondervan Corporation which provides that we will pay a royalty fee of 10% of net sales on the stand-alone product and \$8.00 per unit on total net units of QuickVerse. The products containing the Zondervan NIV Bible, including QuickVerse, accounted for approximately 35% of our revenues in fiscal year 2001 but none of our revenues during the three and nine months ended September 30, 2002. Due to our shortage in working capital, we are significantly in arrears on the royalty payments due under such licensing agreement. On April 5, 2001, we received a notice from The Zondervan Corporation informing us that they were terminating our rights to the Zondervan NIV Bible under the licensing agreement. On October 12, 2001, Zondervan was granted a court order in the United States District Court in the Western District of Michigan ordering FindEx to cease selling, marketing and manufacturing any product that incorporates Zondervan's copyrighted material. As of October 26, 2001 we reached a written payment agreement with Zondervan whereby they would not enforce the court order and we would continue to ship products containing Zondervan's NIV Bible. We failed to meet our first payment obligation due to Zondervan on November 12, 2001 in accordance with the payment agreement. On November 14, 2001, Zondervan pursued its enforcement rights under the court order by serving notice that we cease selling, marketing and manufacturing all products containing their copyrighted material. As of the date hereof, we are abiding by the court order. We are also involved in related court-ordered mediation in connection with Zondervan's claim for \$1,300,000 in unpaid royalties, which amount we are disputing. As of May 7, 2002, it was agreed among Zondervan, FindEx, and TLC, another named defendant in the proceeding, that FindEx and TLC would submit to independent audits in an effort to resolve disputed royalty amounts owed. Although we hope to be able to resolve this pending litigation in a way that will allow us to continue to sell, market and manufacture Zondervan's copyrighted material, and not dramatically impair our cash flow, there can be no assurance as to our ability to achieve either of these results. Depending on the timing of, and the period over which it would be required to be paid by us, any judgment for money damages in excess of \$50,000 in this proceeding would have a material adverse effect on our business, operations, financial condition and ability to operate as a going concern.

The provision for sales returns increased approximately \$55,000 from \$70,125 for the three months ended September 30, 2001 to \$124,760 for the three months ended September 30, 2002, and decreased approximately \$119,000 from \$376,225 for the nine months ended September 30, 2001 to \$257,190 for the nine months ended September 30, 2002. The company has experienced fewer product returns overall during the first nine months of 2002 than during the same period of 2001. In addition, we increased our direct sales efforts to the end user where our return policy is much shorter and incidents of product returns much lower than in the Christian and secular retail markets. We did increase our provision for the third quarter of 2002 to reflect an increase in shipments of boxed retail product associated with the Membership Plus release.

## **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. The direct costs and manufacturing overhead decreased from 20.5% of gross revenues in 2001 to 15.5% of gross revenues in 2002. The decrease resulted directly from the sharp decrease in sales of boxed, retail products. Sales direct to the end user do not require the cost of a retail box nor the additional packaging and shipping materials. Royalties to third party providers of intellectual property also decreased from 9.9% of gross revenues in 2001 to 2.7% of gross revenues in 2002. The decrease in royalties reflects our focus on selling product upgrades and non-royalty titles. Upgrade sales, e.g. from QuickVerse version 6 to QuickVerse version 7, are subject to royalties only on the content additions of the upgraded version.

Software development costs, consisting primarily of direct and indirect labor and related overhead charges, capitalized during the three and nine months ended September 30, 2002 were \$91,509 and \$185,964, respectively. Accumulated amortization of these development costs included in cost of sales totaled \$13,526 and \$19,907 for the three and nine months ended September 30, 2002, respectively.



## **SALES, GENERAL AND ADMINISTRATIVE**

Sales expenses increased approximately \$43,000 from \$159,374 for the three months ended September 30, 2001 to \$202,383 for the three months ended September 30, 2002 and increased approximately \$134,000 from \$486,630 for the nine months ended September 30, 2001 to \$620,994 for the nine months ended September 30, 2002. The increase is primarily due to an increase in commissions paid to the telemarketing firm we use for our direct sales. TLC handled direct sales almost entirely during the first quarter of 2001. We anticipate sales commissions will increase in future quarters as we continue to expand our direct sales efforts. In addition, we began providing our own technical support in April 2001 effectively lowering the matching of future technical support costs related to sales from the current year period. Prior to that point, the company operated under an agreement with TLC whereby TLC provided technical support and billed FindEx based on the monthly number of technical support calls and emails received. It is anticipated that future technical support costs will remain lower, on a per instance basis, than that provided by TLC. We also anticipate that our advertising costs will increase in relation to our revenue growth.

Personnel costs increased approximately \$16,000 from \$301,872 for the three months ended September 30, 2001 to \$317,634 for the three months ended September 30, 2002 and decreased approximately \$36,000 from \$1,075,904 for the nine months ended September 30, 2001 to \$1,040,213 for the nine months ended September 30, 2002 primarily from the capitalization of direct and indirect labor and related overhead charges as software development costs (see 'Cost of Sales' above). As indicated above, personnel costs for the three and nine months ended September 30, 2002 include \$145,682 in non-cash expenses related to 5,827,280 restricted common shares issued to employees and directors as an incentive and retention bonus program. Also included in the net decrease in personnel costs for the nine months ended September 30 is a 13% increase in employee benefits. This increase was partially offset by changes in our benefit providers and the benefit packages we offer to our employees. 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. Investor services decreased approximately \$17,000 and \$255,000 for the three and nine months ended September 30, 2002, respectively, as compared to the same periods in the prior year, as we did not renew our investor services contract. Legal costs decreased approximately \$32,000 and \$204,000, respectively, as we dealt with fewer legal disputes during the three and nine months ended September 30, 2002. It is anticipated that legal costs will be higher in future quarters as we continue to work through the disputes with Zondervan and TLC, as well as those with Swartz.

Rent expense decreased approximately \$7,000 during the three months ended September 30, 2002 and approximately \$19,000 during the nine months ended September 30, 2002. This decrease is attributable to our having closed our sales office in Cedar Rapids, Iowa in late 2001. Rent at our corporate office location increased slightly over 2001. We anticipate that rent expense will continue to decrease as we have combined our product fulfillment and corporate office facilities into one location.

Travel costs decreased approximately \$27,000 and \$42,000 during the three and nine months ended September 30, 2002, respectively, compared to the same periods of the prior year. This decrease is a direct result of our staff reductions and shift in sales focus from the distributor to the end user.

## **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. Amortization of the software license agreement is on a straight-line basis over the estimated useful life for financial reporting while deductible when paid for income tax purposes. 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. Because of this uncertainty, we have recorded a valuation allowance to offset 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 \$9,790,000. The carryforwards are the result of income tax losses generated in 1996 (\$50,000 expiring in 2011), 1997 (\$77,000 expiring in 2012), 1998 (\$54,000 expiring in 2018), 2000 (\$4,418,000 expiring in 2020) and 2001 (\$5,191,000 expiring in 2021). We will need to achieve a minimum annual taxable income, before deduction of operating loss carryforwards, of approximately \$490,000 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. In addition, the deductions currently taken for license agreement payments will expire within the next year and taxable income will be greater than income for financial reporting purposes.

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Management expects the deductible temporary differences (reserves) to reverse sometime beyond the next fiscal year.

## **LIQUIDITY AND CAPITAL RESOURCES**

To date, we have funded our purchase of the Parsons Church Division primarily through operations. Since inception, we have raised approximately \$2,250,000 in net proceeds from equity financings to fund acquisition and working capital needs.

As of September 30, 2002, FindEx had \$899,109 in current assets, \$5,180,381 in current liabilities and a retained deficit of \$8,854,329. These factors continue to create an uncertainty about our ability to continue as a going concern. We had a net loss of \$125,272 and net income of \$1,049,479 for the three and nine months ended September 30, 2002, respectively.

Net cash provided by operating activities was \$130,053 for the nine months ended September 30, 2002 and net cash used by operating activities was \$61,875 for the nine months ended September 30, 2001. The increase in cash provided was primarily due to refocusing our sales efforts on direct sales. These sales are generally credit card sales and provide a much greater profit margin. This increase in cash from operating activities reflects a net decrease in trade accounts payable of approximately \$305,000. The net decrease in trade accounts payable includes the refinancing of \$154,468 as a long-term liability.

Net cash used by investing activities was \$48,241 and \$29,843 for the nine months ended September 30, 2002 and 2001, respectively. The increase in net cash used relates primarily to purchases of equipment and software.

Net cash used by financing activities was \$64,547 for the nine months ended September 30, 2002 and net cash provided by financing activities was \$72,781 for the nine months ended September 30, 2001. Cash used by financing activities reflects payments made on debt obligations and the refund of the 2000 investment of Thomas Ardt and Betty Wolfe. We refinanced \$154,468 of trade accounts payable to Cedar Graphics, Inc. by issuing a term note payable. This refinancing has been reflected in the net decrease in trade accounts payable with only the principal reduction reflected in financing activities.

### **Zondervan Claim**

As discussed above, we are currently involved in court-ordered mediation in connection with Zondervan's claim for \$1,300,000 in unpaid royalties, which amount we are disputing. Depending on the timing of, and the period over which it would be required to be paid by us, any judgment for money damages in excess of \$50,000 in this proceeding would have a material adverse effect on our business, operations, financial condition and ability to operate as a going concern.

### **Threatened Litigation by Swartz Private Equity**

On June 6, 2001, we entered into an Equity Line Investment Agreement (the "Equity Line Agreement") with Swartz Private Equity, LLC ("Swartz"). In accordance with its terms, the Equity Line Agreement entitled us to issue and sell up ("Put") to \$15 million of our common stock to Swartz, subject to a formula based on our stock price and trading volume, from time to time over a three year period (the "Equity Line") following the effectiveness of a shelf registration statement that we were to have filed in connection with this transaction (the "Equity Line Registration Statement").

Among many other terms, the Equity Line Agreement provided that if we failed to Put at least \$500,000 worth of common stock to Swartz during the first year after the effective date of the Equity Line Registration Statement, and \$1,000,000 during each one year period following thereafter, we would be required to pay Swartz an annual non-usage fee. Under the Equity Line Agreement, this non-usage fee would equal the difference between \$100,000 and 10% of

the value of the shares of common stock that we Put to Swartz during the one year period, and would be due and payable each year in cash within five (5) business days of the date it was accrued.

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Although the Equity Line Agreement provided that it could be terminated by us at any time upon notice to Swartz, it also provided that, in the event of any such termination by us, we would be required to pay Swartz the greater of (i) the non-usage fee described above, or (ii) the difference between \$150,000 and 10% of the value of the shares of common stock Put to Swartz during all Puts to date as of that time. Further, any such termination would not affect any other obligations we had under either the Equity Line Agreement or any related agreement. Among other related agreements, this included (i) a six-year warrant granted to Swartz by us to purchase 510,000 shares of our common stock at \$0.23 per share, which warrant was issued as partial consideration for entering into the Equity Line Agreement (the "Commitment Warrant"), and (ii) a certain anti-dilution agreement that applied, among other things, to the Commitment Warrant (the "Warrant Anti-Dilution Agreement").

On August 2, 2001, and in accordance with its obligation under the Equity Line Agreement, we filed the Equity Line Registration Statement. Because our stock price collapsed shortly thereafter to a point at which any use of the Equity Line became prohibitively expensive in the determination of the FindEx Board (because the price Swartz was to pay was tied to the stock price), after a long period of waiting and hoping for a rebound or other meaningful increase in the trading price of our common stock, on August 26, 2002, the Registration Statement was officially withdrawn. That same day, notice of termination of the Equity Line Agreement was provided by us to Swartz. Because the Equity Line Registration Statement was never declared effective by the SEC, the Equity Line never became operative, and no amount was ever drawn by us paid thereunder.

On September 6, 2002, Swartz provided notice to us that it was making a demand under the Equity Line Agreement for the termination fee provided thereunder. In accordance with Swartz's calculations, they were owed \$150,000 payable in cash or common stock within 10 days of the termination. At the time of such notice, and had such amount been paid in common stock, it would have required 3.75 million shares. Shortly thereafter, such claim rose to over 9 million shares. In addition, Swartz further demanded another warrant for an additional 219,127 shares of our common stock pursuant to the Commitment Warrant and the Warrant Anti-Dilution Agreement. Although certain settlement discussions have ensued, at this point, the prospects for settlement seem highly uncertain. There can be no assurance that this matter will be able to be settled on terms that will not have a direct or indirect material adverse effect on our liquidity and financial condition. Further, if litigated, there can be no assurance that (i) the resources devoted to defending any such claim will not have a negative impact on FindEx's ability to manage other aspects of its business, and (ii) any outcome thereof will not have a direct or indirect material adverse effect on our liquidity and financial condition.

We do not currently have adequate cash resources available to fund operations over the next twelve months. In order to maintain our current level of operations, we may need to secure additional funding sources to meet our operating expenses. Such funding sources may include, but are not limited to, private placements of common or convertible equities, placement of debt with banks, private or public investors, or other lending institutions. Although there can be no assurance, we believe that through a combination of outside sources of capital, revenues generated from direct-to-consumer sales and timely introduction of new product releases, we will have sufficient sources of capital to meet our operating needs. However, any substantial delays in receipt of or failure to obtain such capital and delays in product releases will prevent us from operating as a going concern, given our limited revenues and capital reserves.

**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:  
September  
29, 2005

By/s/ Steven  
Malone

Steven Malone  
President and  
Chief Executive  
Officer

Date:  
September  
29, 2005

By/s/ Kirk R.  
Rowland

Kirk R.  
Rowland,  
CPA  
Chief  
Financial  
Officer