

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 June 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 | 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 September 28, 2005.

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

Explanatory Note

We are filing this Amendment Number 1 to our Quarterly Report on Form 10-QSB for the three and six months ended June 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 June 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 June 30, 2002 and our condensed consolidated statements of operations and condensed consolidated statements of cash flows for the three and six 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 June 30, 2002 and our condensed consolidated statements of operations and condensed consolidated statements of cash flows for the three and six months then ended.

Finally, we had previously and erroneously, included rebates (\$782 during the three and six months ended June 30, 2002) 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 six months ended June 30, 2001 have been reclassified to conform with the 2002 presentation.

A discussion of the restatement for the quarter ended June 30, 2002 is included in Note 12 of the condensed consolidated financial statements included in this Amendment Number 1 to Form 10-QSB for the quarter ended June 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 June 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) | (Restated) |
| | June 30, | December |
| | 2002 | 31, 2001 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ --- | \$ 7,140 |
| Accounts receivable, trade | 447,792 | 460,170 |
| Inventory | 509,716 | 646,246 |
| Other current assets | 30,185 | 21,468 |
| Total current assets | 987,693 | 1,135,024 |
| Property and equipment, net | 110,794 | 92,185 |
| Software license, net | 3,524,858 | 3,776,306 |
| Other assets | 19,111 | 12,558 |
| Total assets | \$ 4,642,456 | \$ 5,016,073 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Cash overdraft | \$ 25,512 | \$ --- |
| License fees payable | --- | 1,051,785 |
| Notes payable | 749,000 | 749,000 |
| Accrued royalties | 2,104,542 | 2,082,694 |
| Accounts payable, trade | 1,007,479 | 1,422,573 |
| Current maturities of long-term notes payable | 54,766 | --- |
| Other current liabilities | 1,279,488 | 1,490,462 |
| Total current liabilities | 5,220,787 | 6,796,514 |
| Long-term note payable | 78,103 | 71,322 |
| Non-current deferred taxes | 1,045,327 | 1,147,043 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock | 51 | 51 |
| Common stock | 19,288 | 11,231 |
| Paid-in capital | 7,007,957 | 6,893,720 |
| Retained (deficit) | (8,729,057) | (9,903,808) |
| Total stockholders' equity | (1,701,761) | (2,998,806) |
| Total liabilities and stockholders' equity | \$ 4,642,456 | \$ 5,016,073 |

See accompanying notes.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|------------------------------------|----------------|----------------------------------|----------------|
| | 2002 | 2001 | 2002 | 2001 |
| | (Restated) | (Restated) | (Restated) | (Restated) |
| Revenues, net of reserves and allowances | \$ 1,125,287 | \$ 382,843 | \$ 2,057,979 | \$ 1,512,408 |
| Cost of sales | 180,954 | 175,926 | 338,841 | 639,758 |
| Gross profit | 944,333 | 206,917 | 1,719,138 | 872,650 |
| Operating expenses: | | | | |
| Sales and marketing | 234,087 | 177,609 | 418,611 | 324,880 |
| General and administrative | 548,342 | 855,541 | 946,772 | 1,549,546 |
| Bad debt expense | --- | 2,391,000 | --- | 2,391,000 |
| Depreciation and amortization | 134,561 | 132,983 | 268,402 | 268,058 |
| Total operating expenses | 916,990 | 3,557,133 | 1,633,785 | 4,533,484 |
| Earnings (loss) from operations | 27,343 | (3,350,216) | 85,353 | (3,660,834) |
| Other income | 1,051,596 | 122 | 1,051,785 | 2,641 |
| Other expenses, net | (41,328) | (10,591) | (64,103) | (20,699) |
| Income (loss) before income taxes | 1,037,611 | (3,360,685) | 1,073,035 | (3,678,892) |
| Provision for income taxes | 48,716 | 712,452 | 101,716 | 749,452 |
| Net income (loss) | \$ 1,086,327 | \$ (2,648,233) | 1,174,751 | (2,929,440) |
| Retained earnings (deficit) at beginning of year | | | (9,903,808) | (2,299,256) |
| Retained earnings (deficit) at end of period | | | \$ (8,729,057) | \$ (5,228,696) |
| Net earnings (loss) per share: | | | | |
| Basic | \$ 0.06 | \$ (0.25) | \$ 0.08 | \$ (0.28) |
| Diluted | \$ 0.05 | \$ (0.25) | \$ 0.07 | \$ (0.28) |
| Weighted average shares outstanding: | | | | |
| Basic | 19,288,359 | 10,566,859 | 15,622,479 | 10,550,442 |
| Diluted | 21,548,035 | 10,566,859 | 17,876,677 | 10,550,442 |

See accompanying notes.

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

| Six Months Ended June 30 | 2002 | 2001 |
|---|-------------------|----------------|
| | (Restated) | |
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 1,945,327 | \$ 2,159,377 |
| Cash paid to suppliers and employees | (1,854,117) | (2,154,359) |
| Other operating activities, net | (25,075) | (47,808) |
| Net cash provided (used) by operating activities | 66,135 | (42,790) |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (35,256) | (13,309) |
| Other investing activities, net | (6,860) | (16,400) |
| Net cash (used) by investing activities | (42,116) | (29,709) |
| Cash flows from financing activities: | | |
| Proceeds from (payments on) line of credit, net | (10,072) | 39,495 |
| Payments made on long-term notes payable | (21,599) | --- |
| Refund on stock subscription | (25,000) | --- |
| Addition to license agreements | --- | 25,073 |
| Net cash provided (used) by financing activities | (56,671) | 64,568 |
| Net (decrease) in cash and cash equivalents | (32,652) | (7,931) |
| Cash and cash equivalents, beginning of year | 7,140 | 21,768 |
| Cash and cash equivalents (cash overdraft), end of period | \$ (25,512) | \$ 13,837 |
| Reconciliation of net income to cash flows from operating activities: | | |
| Net income (loss) | \$ 1,174,751 | \$ (2,929,440) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | |
| Stock and warrants issued for services | 147,294 | 298,001 |
| Provision for bad debts | --- | 2,391,000 |
| Depreciation & amortization | 268,402 | 268,058 |
| Debt forgiveness | (1,051,785) | --- |
| Change in assets and liabilities: | | |
| Decrease in accounts receivable | 12,378 | 625,403 |
| Decrease in inventories | 136,530 | 68,242 |
| (Increase) in refundable income taxes | --- | (23,745) |
| (Increase) in prepaid expenses | (11,989) | (24,493) |
| Increase in accrued royalties | 21,848 | 206,900 |
| Increase (decrease) in accounts payable | (331,949) | 332,091 |
| (Decrease) in income taxes payable | --- | (39,284) |
| (Decrease) in deferred taxes | (101,716) | (735,000) |
| (Decrease) in other liabilities | (197,629) | (480,523) |
| Net cash provided (used) by operating activities | \$ 66,135 | \$ (42,790) |

See accompanying notes.

FindEx.com, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 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 June 30, 2002 were \$80,928, less accumulated amortization of \$6,380. Research and development costs incurred and charged to expense were \$1,770 and \$1,905 for the three months ended June 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 8 and 12.

NOTE 3 - NOTES PAYABLE

At June 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 660,000 restricted common shares. | 33,000 |

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 660,000 restricted common shares. 33,000

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 660,000 restricted common shares. 33,000
\$ 749,000

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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 June 30, 2002 are as follows:

| June 30 | |
|----------------|------------|
| 2003 | \$ 54,766 |
| 2004 | 59,306 |
| 2005 | 18,797 |
| | \$ 132,869 |

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 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.

NOTE 6 - INCOME TAXES (Restated)

The benefit (expense) for taxes on income for the three and six months ended June 30 consisted of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| | (Restated) | | (Restated) | |
| Current: | | | | |
| Federal | \$ --- | \$ --- | \$ --- | \$ --- |
| State | --- | 14,500 | --- | 14,500 |
| | --- | 14,500 | --- | 14,500 |
| Deferred: | | | | |
| Federal | 38,498 | 514,000 | 81,398 | 551,000 |
| State | 10,218 | 183,952 | 20,318 | 183,952 |
| | 48,716 | 697,952 | 101,716 | 734,952 |
| Total tax benefit | \$ 48,716 | \$ 712,452 | \$ 101,716 | \$ 749,452 |

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 4,483,200 and 2,398,200 potentially dilutive securities for the three and six months ended June 30, 2002 and 2001, respectively, have

been excluded from the computation of diluted earnings per share, as their inclusion would be anti-dilutive.

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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:

| For the Three Months Ended June 30, 2001 | Income (Loss) (Numerator) | Shares (Denominator) | Per-share Amount |
|--|--|---------------------------------|-----------------------------|
| Net Loss (Restated) | \$ (2,648,233) | | |
| Less preferred stock dividends | --- | | |
| Loss available to common stockholders-basic earnings per share | (2,648,233) | 10,566,859 | \$ (0.25) |
| 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 | \$ (2,648,233) | 10,566,859 | \$ (0.25) |

| For the Three Months Ended June 30, 2002 | Income (Loss) (Numerator) | Shares (Denominator) | Per-share Amount |
|--|--|---------------------------------|-----------------------------|
| Net Income (Restated) | \$ 1,086,327 | | |
| Less preferred stock dividends | --- | | |
| Income available to common stockholders-basic earnings per share | 1,086,327 | 19,288,359 | \$ 0.06 |
| Effect of Dilutive Securities | | | |
| Options | --- | --- | |
| Convertible notes payable | 10,097 | 1,980,000 | |
| Convertible Preferred Series A | --- | 114,000 | |
| Convertible Preferred Series B | --- | 40,000 | |
| Warrants (Restated) | --- | 125,676 | |
| Income available to common stockholders-diluted earnings per share | \$ 1,096,424 | 21,548,035 | \$ 0.05 |

| For the Six Months Ended June 30, 2001 | Income (Loss) (Numerator) | Shares (Denominator) | Per-share Amount |
|--|--|---------------------------------|-----------------------------|
| Net Loss | \$ (2,929,440) | | |
| Less preferred stock dividends | --- | | |
| Loss available to common stockholders-basic earnings per share | (2,929,440) | 10,550,442 | \$ (0.28) |
| 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 | \$ (2,929,440) | 10,550,442 | \$ (0.28) |

| For the Six Months Ended June 30, 2002 | Income (Loss) (Numerator) | Shares (Denominator) | Per-share Amount |
|---|--|---------------------------------|-----------------------------|
| Net Income (Restated) | \$ 1,174,751 | | |
| Less preferred stock dividends | --- | | |
| Income available to common stockholders-basic earnings per share | 1,174,751 | 15,622,479 | \$ 0.08 |
| Effect of Dilutive Securities | | | |
| Options | --- | --- | |
| Convertible notes payable | 10,097 | 1,980,000 | |
| Convertible Preferred Series A | --- | 114,000 | |
| Convertible Preferred Series B | --- | 40,000 | |
| Warrants | --- | 120,198 | |
| Income available to common stockholders-diluted earnings per share | \$ 1,184,848 | 17,876,677 | \$ 0.07 |

NOTE 8 - 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.

NOTE 9 - 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 10 - 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.

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NOTE 11 - SUBSEQUENT EVENTS

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

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.

NOTE 12 - RESTATEMENT AND RECLASSIFICATION

The Company has restated its financial statements for the three and six months ended June 30, 2002 to correct errors 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 June 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 June 30, 2002 and the condensed consolidated statements of operations and condensed consolidated statements of cash flows for the three and six 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 June 30, 2002, and the condensed consolidated statements of operations and condensed consolidated statements of cash flows for the three and six months then ended.

Finally, we had previously and erroneously, included rebates (\$782 during the three and six months ended June 30, 2002) 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 six months ended June 30, 2001 have been reclassified to conform with the 2002 presentation.

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

Findex.com, Inc.
CONSOLIDATED BALANCE SHEETS
June 30, 2002

| | As Previously Reported | As Restated | Change |
|---|------------------------------|----------------|--------------|
| Assets | | | |
| Current assets: | | | |
| Accounts receivable, trade | \$ 447,792 | \$ 447,792 | \$ --- |
| Inventories | 509,716 | 509,716 | --- |
| Other current assets | 30,185 | 30,185 | --- |
| Total current assets | 987,693 | 987,693 | --- |
| Property and equipment, net | 110,794 | 110,794 | --- |
| Software license, net | 2,584,894 | 3,524,858 | 939,964 (a) |
| Other assets | 19,111 | 19,111 | --- |
| Total assets | \$ 3,702,492 | \$ 4,642,456 | \$ 939,964 |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Cash overdraft | \$ 25,512 | \$ 25,512 | \$ --- |
| Accounts payable, trade | 1,106,425 | 1,007,479 | (98,946) (b) |
| Notes payable | 749,000 | 749,000 | --- |
| Accrued royalties | 2,104,542 | 2,104,542 | --- |
| Accrued expenses | 1,279,488 | 1,279,488 | --- |
| Current maturities of long-term debt | 54,766 | 54,766 | --- |
| Total current liabilities | 5,319,733 | 5,220,787 | (98,946) |
| Long-term note payable | 78,103 | 78,103 | --- |
| Deferred income taxes, net | 1,111,043 | 1,045,327 | (65,716) (c) |
| Stockholders' equity: | | | |
| Preferred stock, \$.001 par value | 51 | 51 | --- |
| Common stock, \$.001 par value | 19,288 | 19,288 | --- |
| Paid-in capital | 7,007,957 | 7,007,957 | --- |
| Retained (deficit) | (9,833,683) | (8,729,057) | 1,104,626 |
| Total stockholders' equity | (2,806,387) | (1,701,761) | 1,104,626 |
| Total liabilities and stockholders' equity | \$ 3,702,492 | \$ 4,642,456 | \$ 939,964 |

(a) Increase from reclassification of extinguishment of final installment due as Other income and returning the estimated economic life from 50 years to 10 years.

(b) Decrease from reflecting fiscal year ended December 31, 2000 error correction in retained earnings from restating the 2000 financial statements.

(c) Decrease from income tax effects of changes to the accounting of the software license agreement.

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Findex.com, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Six Months Ended June 30, 2002

| | As Previously Reported | As Restated | Change | |
|--|------------------------------|----------------|--------------|-----|
| Revenues, net of reserves and allowances | \$ 2,058,761 | \$ 2,057,979 | \$ (782) | (a) |
| Cost of sales | 338,841 | 338,841 | --- | |
| Gross profit | 1,719,920 | 1,719,138 | (782) | |
| Operating expenses: | | | | |
| Sales and marketing | 419,393 | 418,611 | (782) | (a) |
| General and administrative | 946,772 | 946,772 | --- | |
| Depreciation and amortization | 156,580 | 268,402 | 111,822 | (b) |
| Total operating expenses | 1,522,745 | 1,633,785 | 111,040 | |
| Earnings from operations | 197,175 | 85,353 | (111,822) | |
| Interest income | 43 | 43 | --- | |
| Other income | --- | 1,051,785 | 1,051,785 | (c) |
| Interest expense | (64,146) | (64,146) | --- | |
| Income before income taxes | 133,072 | 1,073,035 | 939,963 | |
| Provision for income taxes | 36,000 | 101,716 | 65,716 | (d) |
| Net income | \$ 169,072 | \$ 1,174,751 | \$ 1,005,679 | |
| Net earnings per share: | | | | |
| Basic | \$ 0.01 | \$ 0.08 | \$ 0.07 | |
| Diluted | \$ 0.01 | \$ 0.07 | \$ 0.06 | |
| Weighted average shares outstanding | | | | |
| Basic | 15,622,479 | 15,622,479 | --- | |
| Diluted | 17,756,479 | 17,876,677 | 120,198 | (e) |

(a) Reclassification of rebates from sales and marketing expenses to an adjustment to revenue.

(b) Increase in amortization of software license agreement from recognition of extinguishment of final installment as Other income and reduction of the economic life from 50 years to 10 years.

(c) Recognition of extinguishment of the final software license installment as Other income instead of as an offset against the software license agreement carrying amount.

(d) Increase from income tax effects of changes to accounting for the software license agreement.

(e) Increase from correction of calculation of potentially dilutive common stock warrants.

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

| | As Previously Reported | As Restated | Change | |
|--|------------------------------|----------------|--------------|-----|
| Revenues, net of reserves and allowances | \$ 1,127,057 | \$ 1,125,287 | \$ (1,770) | (a) |
| Cost of sales | 180,954 | 180,954 | --- | |
| Gross profit | 946,103 | 944,333 | (1,770) | |
| Operating expenses: | | | | |
| Sales and marketing | 235,857 | 234,087 | (1,770) | (a) |
| General and administrative | 548,531 | 548,531 | --- | |
| Depreciation and amortization | 22,740 | 134,561 | 111,821 | (b) |
| Total operating expenses | 807,128 | 917,179 | 110,051 | |
| Earnings from operations | 138,975 | 27,154 | (111,821) | |
| Interest income | 18 | 18 | --- | |
| Other income | --- | 1,051,785 | 1,051,785 | (c) |
| Interest expense | (41,346) | (41,346) | --- | |
| Income before income taxes | 97,647 | 1,037,611 | 939,964 | |
| Provision for income taxes | (17,000) | 48,716 | 65,716 | (d) |
| Net income | \$ 80,647 | \$ 1,086,327 | \$ 1,005,680 | |
| Net earnings per share: | | | | |
| Basic | \$ 0.00 | \$ 0.06 | \$ 0.06 | |
| Diluted | \$ 0.00 | \$ 0.05 | \$ 0.05 | |
| Weighted average shares outstanding: | | | | |
| Basic | 19,288,359 | 19,288,359 | --- | |
| Diluted | 21,422,359 | 21,548,035 | 125,676 | (e) |

(a) Reclassification of rebates from sales and marketing expenses to an adjustment to revenue.

(b) Increase in amortization of software license agreement from recognition of extinguishment of final installment as Other income and reduction of the economic life from 50 years to 10 years.

(c) Recognition of extinguishment of the final software license installment as Other income instead of as an offset against the software license agreement carrying amount.

(d) Increase from income tax effects of changes to accounting for the software license agreement.

(e) Increase from correction of calculation of potentially dilutive common stock warrants.

Findex.com, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Six Months Ended June 30, 2001

| | As Previously Reported | As Restated | Change |
|--|------------------------------|----------------|------------------|
| Revenues, net of reserves and allowances | \$ 1,706,498 | \$ 1,512,408 | \$ (194,090) (a) |
| Cost of sales | 591,618 | 639,758 | 48,140 (b) |
| Gross profit | 1,114,880 | 872,650 | (242,230) |
| Operating expenses: | | | |
| Sales and marketing | 519,000 | 324,880 | (194,120) (c) |
| General and administrative | 1,597,656 | 1,549,546 | (48,110) (d) |
| Bad debt expense | 2,391,000 | 2,391,000 | --- |
| Depreciation and amortization | 268,058 | 268,058 | --- |
| Total operating expenses | 4,775,714 | 4,533,484 | (242,230) |
| Earnings (loss) from operations | (3,660,834) | (3,660,834) | --- |
| Interest income | 12,638 | 12,638 | --- |
| Other income | 2,641 | 2,641 | --- |
| Interest expense | (33,337) | (33,337) | --- |
| Loss before income taxes | (3,678,892) | (3,678,892) | --- |
| Provision for income taxes | 749,452 | 749,452 | --- |
| Net loss | \$ (2,929,440) | \$ (2,929,440) | \$ --- |
| Net earnings (loss) per share: | | | |
| Basic | \$ (0.28) | \$ (0.28) | \$ --- |
| Diluted | \$ (0.28) | \$ (0.28) | \$ --- |
| Weighted average shares outstanding : | | | |
| Basic | 10,550,442 | 10,550,442 | --- |
| Diluted | 10,550,442 | 10,550,442 | --- |

(a) Reclassification of rebates from sales and marketing expenses to an adjustment to revenue.

(b) Increase from reclassification of freight-out from General and administrative and fulfillment costs from Sales and marketing.

(c) Reclassification of rebates as an adjustment to revenue and fulfillment costs to Cost of sales.

(d) Reclassification of freight-out to Cost of sales.

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

| | As Previously Reported | As Restated | Change |
|--|------------------------------|----------------|------------------|
| Revenues, net of reserves and allowances | \$ 575,727 | \$ 382,843 | \$ (192,884) (a) |
| Cost of sales | 147,718 | 175,926 | 28,208 (b) |
| Gross profit | 428,009 | 206,917 | (221,092) |
| Operating expenses: | | | |
| Sales and marketing | 370,572 | 177,609 | (192,963) (c) |
| General and administrative | 883,712 | 855,583 | (28,129) (d) |
| Bad debt expense | 2,391,000 | 2,391,000 | --- |
| Depreciation and amortization | 132,983 | 132,983 | --- |
| Total operating expenses | 3,778,267 | 3,557,175 | (221,092) |
| Earnings (loss) from operations | (3,350,258) | (3,350,258) | --- |
| Interest income | 6,169 | 6,169 | --- |
| Other income | 164 | 164 | --- |
| Interest expense | (16,760) | (16,760) | --- |
| Loss before income taxes | (3,360,685) | (3,360,685) | --- |
| Provision for income taxes | 712,452 | 712,452 | --- |
| Net loss | \$ (2,648,233) | \$ (2,648,233) | \$ --- |
| Net earnings (loss) per share: | | | |
| Basic | \$ (0.25) | \$ (0.25) | \$ --- |
| Diluted | \$ (0.25) | \$ (0.25) | \$ --- |
| Weighted average shares outstanding: | | | |
| Basic | 10,566,859 | 10,566,859 | --- |
| Diluted | 10,566,859 | 10,566,859 | --- |

(a) Reclassification of rebates from sales and marketing expenses to an adjustment to revenue.

(b) Increase from reclassification of freight-out from General and administrative and fulfillment costs from Sales and marketing.

(c) Reclassification of rebates as an adjustment to revenue and fulfillment costs to Cost of sales.

(d) Reclassification of freight-out to Cost of sales.

Findex.com, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2002

| | As Previously Reported | As Restated | Change |
|---|------------------------------|----------------|--------------|
| Cash flows from operating activities: | | | |
| Cash received from customers | \$ 1,945,138 | \$ 1,945,138 | \$ --- |
| Cash paid to suppliers and employees | (1,853,928) | (1,853,928) | --- |
| Interest paid | (25,118) | (25,118) | --- |
| Interest received | 43 | 43 | --- |
| Net cash provided by operating activities | 66,135 | 66,135 | --- |
| Cash flows from investing activities: | | | |
| Acquisition of property, plant and equipment | (35,256) | (35,256) | --- |
| Deposits made | (4,408) | (4,408) | --- |
| Website development costs | (2,452) | (2,452) | --- |
| Net cash (used) by investing activities | (42,116) | (42,116) | --- |
| Cash flows from financing activities: | | | |
| Payments made on line of credit, net | (10,072) | (10,072) | --- |
| Payments made on long-term notes payable | (21,599) | (21,599) | --- |
| Refund on stock subscription | (25,000) | (25,000) | --- |
| Net cash (used) by financing activities | (56,671) | (56,671) | --- |
| Net decrease in cash and cash equivalents | (32,652) | (32,652) | --- |
| Cash and cash equivalents, beginning of year | 7,140 | 7,140 | --- |
| Cash overdraft, end of period | \$ (25,512) | \$ (25,512) | \$ --- |
| Reconciliation of net income to cash flows from operating activities: | | | |
| Net income | \$ 169,072 | \$ 1,174,751 | \$ 1,005,679 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| | 147,294 | 147,294 | --- |

| | | | | |
|---|-----------|-------------|-------------|-----|
| Stock and warrants issued for services | | | | |
| Depreciation & amortization | 156,580 | 268,402 | 111,822 | (a) |
| Debt forgiveness | --- | (1,051,785) | (1,051,785) | (b) |
| Change in assets and liabilities: | | | | |
| Decrease in accounts receivable | 12,378 | 12,378 | --- | |
| Decrease in inventories | 136,530 | 136,530 | --- | |
| (Increase) in prepaid expenses | (11,989) | (11,989) | --- | |
| Increase in accrued royalties | 21,848 | 21,848 | --- | |
| (Decrease) in accounts payable | (331,949) | (331,949) | --- | |
| (Decrease) in deferred taxes | (36,000) | (101,716) | (65,716) | (c) |
| (Decrease) in other liabilities | (197,629) | (197,629) | --- | |
| Net cash provided by operating activities | \$ 66,135 | \$ 66,135 | \$ --- | |

(a) Increase in amortization of software license agreement from recognition of extinguishment of final installment as Other income and reduction of the economic life from 50 years to 10 years.

(b) Software license installment extinguishment reclassified as Other income instead of as an offset against the carrying value of the asset.

(c) Income tax effects of changes to the accounting for the software license agreement.

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 June 30, 2002, our current liabilities exceeded our current assets by \$4,233,094 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 \$237,000 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, www.quickverse.com, and 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, and two (2) enhanced releases of our top financial and data management product, Membership Plus with a new significant product release targeted for September 2002. 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. We also added distributorships for ItsDeductible, a software program that determines and tracks the proper fair market value of item donations; CJ's Closet, a children's software

program of interactive adventures with Biblical themes; and The Holy Land Experience, a multi-media software program containing interactive maps, photographs, educational video lessons, and more bringing the ancient land to life. These distributorships were cancelled in January 2002 as we narrowed our focus to our own core products. 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 are expected to occur in the five months of September through January; the five months of April through August are generally expected to be the weakest generating only about 33% of our annual sales.

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Our earnings before interest, taxes, depreciation, and amortization (EBITDA) increased approximately \$4,431,000 from a loss of approximately \$3,217,000 for the three months ended June 30, 2001 to income of approximately \$1,214,000 for the three months ended June 30, 2002 and increased approximately \$4,796,000 from a loss of approximately \$3,390,000 for the six months ended June 30, 2001 to income of approximately \$1,406,000 for the six months ended June 30, 2002. The income for the three and six months ended June 30, 2002 includes \$147,294 in non-cash expenses related to 5,891,760 restricted common shares issued to employees and directors as an incentive and retention bonus program. This increase 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 June 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 them. 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 \$522,000 from \$692,618 for the three months ended June 30, 2001 to \$1,214,944 for the three months ended June 30, 2002, and increased approximately \$120,000 from \$2,096,460 for the six months ended June 30, 2001 to \$2,216,206 for the six months ended June 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.

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 six months ended June 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 decreased approximately \$30,000 from \$102,700 for the three months ended June 30, 2001 to \$72,335 for the three months ended June 30, 2002, and decreased approximately \$174,000 from \$306,100 for the six months ended June 30, 2001 to \$132,430 for the six months ended June 30, 2002. The Company experienced fewer product returns during the first six 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.

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 12.7% 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 2.6% 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.

SALES, GENERAL AND ADMINISTRATIVE

Sales expenses increased approximately \$154,000 from \$177,609 for the three months ended June 30, 2001 to \$234,087 for the three months ended June 30, 2002 and increased approximately \$940,000 from \$324,880 for the six months ended June 30, 2001 to \$418,611 for the six months ended June 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.

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Personnel costs decreased approximately \$11,000 from \$394,908 for the three months ended June 30, 2001 to \$383,775 for the three months ended June 30, 2002 and decreased approximately \$102,000 from \$774,033 for the six months ended June 30, 2001 to \$671,939 for the six months ended June 30, 2002 primarily from a reduction in staff. As indicated above, personnel costs for the three and six months ended June 30, 2002 include \$147,294 in non-cash expenses related to 5,891,760 restricted common shares issued to employees and directors as an incentive and retention bonus program. Part of the decrease in 2002 can be attributed to capitalization of software development costs pursuant to SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*. Also included in the net decrease in personnel costs is a 116% 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 \$203,000 and \$238,000 for the three and six months ended June 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 \$111,000 and \$216,000, respectively, as we dealt with fewer legal disputes during the three and six months ended June 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.

Rent expense decreased approximately \$9,000 during the three months ended June 30, 2002 and approximately \$12,000 during the six months ended June 30, 2002. We 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.

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.

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 June 30, 2002, FindEx had \$987,693 in current assets, \$5,220,787 in current liabilities and a retained deficit of \$8,729,057. These factors continue to create an uncertainty about our ability to continue as a going concern. We had net income of \$1,086,327 and \$1,174,751 for the three and six months ended June 30, 2002, respectively.

Net cash provided by operating activities was \$66,135 for the six months ended June 30, 2002 and net cash used by operating activities was \$42,790 for the six months ended June 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 \$332,000. The net decrease in trade accounts payable includes the refinancing of \$154,468 as a long-term liability.

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Net cash used by investing activities was \$42,116 and \$29,709 for the six months ended June 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 \$56,671 for the six months ended June 30, 2002 and net cash provided by financing activities was \$64,568 for the six months ended June 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.

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.

We do not currently have adequate funds available to fund operations over the next twelve months. In order to maintain our current level of operations, we will 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: | By/s/ Steven |
| September | Malone |
| 29, 2005 | |
| | Steven Malone |
| | President and |
| | Chief Executive |
| | Officer |

| | |
|-----------|---------------|
| Date: | By/s/ Kirk R. |
| September | Rowland |
| 29, 2005 | |
| | Kirk R. |
| | Rowland, |
| | CPA |
| | Chief |
| | Financial |
| | Officer |