

FINDEX COM INC  
Form 10QSB  
May 17, 2004

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

**FORM 10-QSB**

(Mark One)

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

For the quarterly period ended March 31, 2004.

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT**

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  
(IRS Employer  
Identification No.)

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

(402) 333-1900  
(Issuer's telephone number)

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

**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: 23,168,287 shares as of May 14, 2004.

Transitional Small Business Disclosure Format: (Check one): Yes [ ] No [ X ]

**PART I-FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

Registrant's financial statements are filed herewith following the signature page.

**Item 2. Management's Discussion and Analysis or Plan of Operation.**

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

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

**General**

Findex.com, Inc. ("Findex" or the "Company", and collectively referred to as "we", "us" or "our", in each case as required by the context) is a developer, publisher, and distributor/seller of off-the-shelf consumer and organizational software products. The common thread among the Company's products is a customer constituency that shares a devotion to or interest in Christianity and faith-based inspirational values. We are focused on becoming the premier provider of Bible study and related faith-based software products and content to the domestic and international markets through ongoing internal development of new products, expansion and upgrade of existing products, and strategic product line and/or corporate acquisitions and licensing.

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

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

**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, historically generating only about 33% of our annual sales.

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During the three months ended March 31, 2003 and 2004, we had a write down of obsolete inventory approximating \$32,000 for both periods, respectively. These write downs had no effect on the cash flow statement. Our net income increased approximately \$181,000 from a net income of approximately \$91,000 for the three months ended March 31, 2003 to a net income of approximately \$272,000 for the three months ended March 31, 2004. By excluding our interest, taxes, depreciation, and amortization from net income, our EBITDA increased approximately \$276,000 from EBITDA earnings of approximately \$173,000 for the three months ended March 31, 2003 to EBITDA earnings of approximately \$449,000 for the three months ended March 31, 2004. These net income and EBITDA results include the write downs noted above. Net of the write downs, our net income increased approximately \$181,000 from a net income of approximately \$123,000 for the three months ended March 31, 2003 to a net income of approximately \$304,000 for the three months ended March 31, 2004, and our EBITDA increased approximately \$277,000 from an EBITDA earnings of approximately \$205,000 for the three months ended March 31, 2003 to EBITDA earnings of approximately \$482,000 for the three months ended March 31, 2004.

Overall, interest expense for the three months ended March 31, 2004 decreased by approximately \$10,000 compared to the three months ended March 31, 2003. This is due to the Company reducing its payroll liability by continuously meeting its scheduled payments. Furthermore, the note liabilities interest was reduced due to the reclassification of the note payable in the fourth quarter of 2003. Amortization expense related to the software license decreased for the three months ended March 31, 2004 compared to the three months ended March 31, 2003 as a result of the final settlement with TLC, which extended the life of the license indefinitely. Amortization expense related to the software development costs increased approximately \$112,000 for the three months ended March 31, 2004 compared to the three months ended March 31, 2003. This is a direct result from QuickVerse® 8.0 shipping in late December 2003.

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### 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 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 45 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 \$540,000 from approximately \$1,176,000 for the three months ended March 31, 2003 to approximately \$1,716,000 for the three months ended March 31, 2004. Such increase is due to the Company's release of an enhanced version of our flagship product, QuickVerse®, in late fourth quarter of 2003 and the release of an enhanced version of our top financial and data management product, Membership Plus®, during the first quarter of 2004. Although there was a new product release during the first quarter of 2003, the retail value of the product was significantly lower than the QuickVerse® and Membership Plus® titles and ranged from \$19.95 to \$29.95.

Sales returns and allowances increased approximately \$66,000 from approximately \$112,000 for the three months ended March 31, 2003 to approximately \$178,000 for the three months ended March 31, 2004 and slightly increased as a percentage of gross sales from approximately 9.6% for the three months ended March 31, 2003 to approximately 10.4% for the three months ended March 31, 2004. The increase in sales returns and allowances as a percentage is attributable to post-Christmas stock balancing by our secular customers and several of our CBA customers.

**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 and ship the software products, and the amortized software development costs. The direct costs and manufacturing overhead increased from 14% of gross revenues in 2003 to 16% of gross revenues in 2004. The increase resulted directly from amortization of software development costs. The amortization recognized during the three months ended March 31, 2003 resulted from several new software releases in 2003 and the continued amortization of those products released in 2002. Furthermore, the amortization increase for the three months ended March 31, 2004 corresponds with the December release of QuickVerse® 8.0. The direct costs and manufacturing overhead percentage is expected to continue at the 2004 levels as working capital remains more consistent and as more development projects are implemented. Royalties to third party providers of intellectual property increased approximately \$29,000 from approximately \$51,000 for the three months ended March 31, 2003 to approximately \$80,000 for the three months ended March 31, 2004. The royalty rate as a percentage of gross revenues increased slightly from 4.3% of gross revenues in 2003 to 4.6% of gross revenues in 2004. The increase of royalties reflects the release of the QuickVerse® 8.0 editions in late December 2003 and Membership Plus® 8.0 in late January 2004.

Software development costs, consisting primarily of direct and indirect labor and related overhead charges, capitalized during the three months ended March 31, 2003 and 2004 were approximately \$66,000 and approximately \$74,000, respectively. Accumulated amortization of these development costs included in cost of sales totaled approximately \$41,000 and approximately \$152,000 for the three months ended March 31, 2003 and 2004, respectively. The increase in both the capitalization and amortization is a direct result of the increase in the number of development projects.

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2003</b>               | <b>2004</b> |
| Beginning balance   | \$ 280,502                | \$ 584,706  |
| Capitalized   | 66,075                    | 73,628      |
| Amortized (cost of sales)                                     | 40,422                    | 152,213     |
| Ending balance  | \$ 306,155                | \$ 506,121  |
| Research and development expense (General and administrative) | \$ 67,791                 | \$ 16,174   |

**Sales, General and Administrative**

Sales expenses increased approximately \$53,000 from approximately \$164,000 for the three months ended March 31, 2003 to approximately \$217,000 for the three months ended March 31, 2004. Included in Sales expenses, Commissions to a third-party telemarketing firm increased approximately \$43,000 as our sales focus to the direct consumer increased along with the number of new and enhanced product releases during late 2003 and early 2004; Fulfillment costs from a third-party warehouse increased approximately \$23,000 as we had an increased amount of retail sales during the three months ended March 31, 2004 due to the enhanced releases of QuickVerse® and Membership Plus®; Advertising costs also increased approximately \$18,000 with the new and enhanced product releases, Rebates decreased approximately \$34,000 due to a change in estimate and Marketing and Customer Service costs increased approximately \$4,000 as we continue to expand our sales efforts and focus more towards the consumer instead of the retail store.

Research and development costs include salaries and benefits of personnel and third parties conducting research and development of software products. Software development costs expensed as research and development (see table above) amounted to approximately \$16,000 for the three

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months ended March 31, 2004 compared to approximately \$68,000 incurred for the three months ended March 31, 2003. The decrease in 2004 reflects the early stages of new development projects for the year of 2004. Research and development expenses are expected to increase in future periods as we continue to add new products and Versions to our product mix.

Personnel costs increased approximately \$101,000 from approximately \$295,000 for the three months ended March 31, 2003 to approximately \$396,000 for the three months ended March 31, 2004. This increase is primarily from the addition of staff members and the associated health care costs. Furthermore, the capitalization of direct and indirect labor and related overhead charges as software development costs (see Cost of Sales above) decreased by approximately \$15,000 from approximately \$22,000 for the three months ended March 31, 2003 to approximately \$7,000 for the three months ended March 31, 2004. This decrease is due to the early stages of new development projects for the year 2004. It is anticipated that personnel costs will increase in future periods as operating capital is available to fund full staffing of our product development team and expansion of the technical support and direct marketing staff.

Legal costs increased approximately \$5,000 as the disputes with TLC and Zondervan were finalized in March 2004. Rent expense slightly increased as we opened a new product development facility located in Naperville, IL. Travel costs increased approximately \$2,000 as we increased our sales staff and our sales efforts to our retail customers as new product lines and enhancements were introduced during late 2003 and early 2004. Telecommunication costs increased approximately \$25,000 from approximately \$18,000 for the three months ended March 31, 2003 to approximately \$43,000 for the three months ended March 31, 2004. This increase results from an increase in technical support calls and customer service calls due to the two new major product releases in late December 2003 and early 2004. Bad debt expense increased approximately \$3,000 during 2004 due to the increased amount of outstanding accounts receivable.

### **Obsolete Inventory**

The Company wrote-off obsolete inventory with a carried cost totaling approximately \$32,000 during the three months ended March 31, 2003 and approximately \$32,000 during the three months ended March 31, 2004. The 2003 classification as a nonrecurring item has been recast as a recurring item for 2004 and comparative purposes.

### **Amortization**

Amortization of the software license decreased approximately \$14,000 from approximately \$14,000 for the three months ended March 31, 2003 to \$0 for the three months ended March 31, 2004. Upon final settlement with The Learning Company in October of 2003, the ownership of the Licensed Media, Programs, or Trademarks transferred from TLC to Findex. This effectively changed the substance from an amortizable intangible asset with a finite useful life to an unamortizable intangible asset with an indefinite useful life. Amortization expense, determined using the straight-line method, was calculated through the settlement date of October 20, 2003.

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### **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 \$8,400,000. The carryforwards are the result of income tax losses generated in 2000 (\$2,973,000 expiring in 2020), 2001 (\$5,191,000 expiring in 2021) and 2002 (\$236,000 expiring in 2022). We will need to achieve a minimum annual taxable income, before deduction of operating loss carryforwards, of approximately \$442,000 to fully utilize the current loss carryforwards. We believe this is achievable through continued careful expense management and introduction of new products and enhanced Versions of our existing products.

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

### **Liquidity and Capital Resources**

Item 2. Management's Discussion and Analysis or Plan of Operation.

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To date, Findex has funded its 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 the acquisition and working capital needs. We have focused on fulfilling the software license obligation and have been unable to meet our royalty and trade debt obligations. In addition, the dispute with TLC over specific performance provisions of and payments due on the TLC Distribution Agreement has also lead to the shortage of working capital.

As of March 31, 2004, Findex had \$771,389 in current assets, \$3,293,834 in current liabilities and a retained deficit of \$7,573,076. These factors continue to create an uncertainty about our ability to continue as a going concern. We had net income before income taxes of \$273,055 for the three months ended March 31, 2004.

Net cash provided by operating activities was approximately \$85,000 and approximately \$82,000 for the three months ended March 31, 2003 and 2004, respectively.

Net cash used in investing activities was approximately \$82,000 and \$92,000 for the three months ended March 31, 2003 and 2004, respectively. The increase in cash used for investing activities results form capitalizing costs associated with software development and upgrading our website to expand our e-commerce capability.

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Net cash used by financing activities was approximately \$2,000 and approximately \$1,000 for the three months ended March 31, 2003 and 2004, respectively. Cash used by financing activities reflects proceeds from our accounts receivable line of credit and payments made on debt obligations.

On March 19, 2001, we entered into an Accounts Receivable Financing Agreement with Alliance Financial Capital, Inc. ( AFC ). Pursuant to this agreement, AFC agrees to purchase selected accounts receivable on a discounted basis, including, without limitation, full power to collect, compromise, sue for, assign, or in any manner enforce collection thereof. The agreement provides for advances of 60% toward the purchase of the invoices with a credit line of \$250,000. The terms call for 40% to be held in a reserve account from the collection of each invoice. Invoices not paid by the customer within 90 days of shipment are required to be repurchased by us out of the reserve account. The agreement carries a 12-month term with a minimum monthly fee equal to one half of one percent (.5%). The term renews automatically in 12-month increments unless a written request for termination is received by AFC at least 30 days before the renewal date. During the three months ended March 31, 2004, we transferred accounts receivable totaling \$189,459 to a lender for cash advances of \$112,673. As accounts are paid, the collected funds (less the amount advanced and appropriate fees) are disbursed to the Company. The transfer agreement includes a repurchase requirement and, accordingly, the proceeds were accounted for as a secured borrowing. At March 31, 2004, the balance of receivables transferred and included in trade receivables was \$62,807. The remaining secured borrowing balance of \$37,541 is included in accrued expenses.

We do not currently have adequate funds available to fund our operations over the next twelve months. In order to maintain the current level of operations, we will need to secure additional funding sources to meet its operating expenses. Such funding sources may include, but are not limited to, funding pursuant 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 and revenues generated from direct-to-consumer sales, we will have sufficient sources of capital to meet our operating needs. However, any substantial delays in receipt of or 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.

### **Item 3. Controls and Procedures.**

#### **(a) Evaluation of Disclosure Controls and Procedures.**

Based on their most recent evaluation of our disclosure controls and procedures, which was completed within 90 days of the filing of this Form 10-QSB, the Company's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c) promulgated under the Securities Exchange Act of 1934, as amended) are effective.

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**(b) Changes In Internal Controls Over Financial Reporting**

There have been no changes in the Company's internal controls over financial reporting during the fiscal quarter ended March 31, 2004 that have materially affected, or which are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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**PART II-OTHER INFORMATION**

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

No. Description of Exhibit

- 3.1 Articles of Incorporation of Findex.com, Inc., incorporated by reference to Exhibit 3.1 on Form 8-K filed March 15, 2000.
- 3.2 By-Laws of Findex.com, Inc., incorporated by reference to Exhibit 3.2 on Form 8-K filed March 15, 2000.
- 10.1 Stock Incentive Plan of Findex.com, Inc. dated May 07, 1999, incorporated by reference to Exhibit 10.1 on Form 10-KSB/A filed May 13, 2004.
- 10.2 Share Exchange Agreement between Findex.com, Inc. and the shareholders of Reagan Holdings Inc., dated March 07, 2000, incorporated by reference to Exhibit 2.1 on Form 8-K filed March 15, 2000.
- 10.3 License Agreement between Findex.com, Inc. and Parsons Technology, Inc. dated June 30, 1999, incorporated by reference to Exhibit 10.3 on Form 10-KSB/A filed May 13, 2004.
- 10.4 Employment Agreement between Findex.com, Inc. and Steven Malone dated July 25, 2003, incorporated by reference to Exhibit 10.4 on Form 10-KSB/A filed May 13, 2004.
- 10.5 Employment Agreement between Findex.com, Inc. and Kirk Rowland dated July 25, 2003, incorporated by reference to Exhibit 10.5 on Form 10-KSB/A filed May 13, 2004.
- 10.6 Employment Agreement between Findex.com, Inc. and William Terrill dated June 7, 2002, incorporated by reference to Exhibit 10.6 on Form 10-KSB/A filed May 13, 2004.
- 10.7 Restricted Stock Compensation Agreement between Findex.com, Inc. and John A. Kuehne dated July 25, 2003, incorporated by reference to Exhibit 10.7 on Form 10-KSB/A filed May 13, 2004.
- 10.8 Restricted Stock Compensation Agreement between Findex.com, Inc. and Henry M. Washington dated July 25, 2003, incorporated by reference to Exhibit 10.8 on Form 10-KSB/A filed May 13, 2004.
- 10.9 Restricted Stock Compensation Agreement between Findex.com, Inc. and William Terrill dated July 25, 2003, incorporated by reference to Exhibit 10.9 on Form 10-KSB/A filed May 13, 2004.
- 31.1 Certification of Findex.com, Inc. Chief Executive Officer, Steven Malone, required by Rule 13a-14(a) or Rule 15d-14(a), and dated May 17, 2004. FILED HEREWITH.

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- 31.2 Certification of Findex.com, Inc. Chief Financial Officer, Kirk Rowland, required by Rule 13a-14(a) or Rule 15d-14(a), and dated May 17, 2004. FILED HEREWITH.
- 32.1 Certification of Findex.com, Inc. Chief Executive Officer, Steven Malone, required by Rule 13a-14(a) or Rule 15d-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), and dated May 17, 2004. FILED HEREWITH.
- 32.2 Certification of Findex.com, Inc. Chief Financial Officer, Kirk Rowland, required by Rule 13a-14(a) or Rule 15d-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), and dated May 17, 2004. FILED HEREWITH.

(b) Reports on Form 8-K filed during the three months ended March 31, 2004:

None.

**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: May 17, 2004

/s/ Steven Malone  
Steven Malone  
President & Chief Executive Officer

Date: May 17, 2004

/s/ Kirk Rowland  
Kirk Rowland, CPA  
Chief Financial Officer

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

**(Unaudited)**  
**March 31, December 31,**  
**2004 2003**

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ASSETS

CURRENT ASSETS

Cash and cash equivalents



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|   | (Unaudited)       |                      |
|---|-------------------|----------------------|
|   | March 31,<br>2004 | December 31,<br>2003 |
| Unrestricted cash (overdraft)   | \$ (14,215)       | \$ 36,339            |
| Restricted cash   | 145,153           | 105,683              |
|   | <hr/>             | <hr/>                |
| Total cash and cash equivalents   | 130,938           | 142,022              |
| Accounts receivable, trade  | 443,781           | 365,803              |
| Inventories (Note 2)  | 173,000           | 272,600              |
| Other current assets  | 23,670            | 21,920               |
|   | <hr/>             | <hr/>                |
| TOTAL CURRENT ASSETS  | 771,389           | 802,345              |
|   | <hr/>             | <hr/>                |
| PROPERTY AND EQUIPMENT, net   | 69,703            | 65,603               |
|   | <hr/>             | <hr/>                |
| OTHER ASSETS  |                   |                      |
| Software license, net   | 2,513,158         | 2,513,158            |
| Capitalized software development costs, net (Note 1)  | 506,121           | 584,706              |
| Other assets  | 68,818            | 63,818               |
|   | <hr/>             | <hr/>                |
| TOTAL OTHER ASSETS  | 3,088,097         | 3,161,682            |
|   | <hr/>             | <hr/>                |
| TOTAL ASSETS  | \$ 3,929,189      | \$ 4,029,630         |
|   | <hr/>             | <hr/>                |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |                   |                      |
| CURRENT LIABILITIES   |                   |                      |
| Notes payable (Note 3)  | \$ 89,999         | \$ 89,999            |
| Current maturities of long-term notes payable (Note 4)  | 128,344           | 126,876              |
| Accrued royalties   | 1,398,570         | 1,499,006            |
| Accounts payable  | 737,358           | 989,354              |
| Rebates payable   | 295,862           | 357,451              |
| Payroll taxes payable   | 192,611           | 221,600              |
| Other current liabilities   | 451,090           | 363,893              |
|   | <hr/>             | <hr/>                |
| TOTAL CURRENT LIABILITIES   | 3,293,834         | 3,648,179            |
|   | <hr/>             | <hr/>                |
| LONG-TERM LIABILITIES   |                   |                      |
| Long-term notes payable (Note 4)  | 54,613            | 73,764               |
| Non-current deferred taxes  | 1,052,127         | 1,051,327            |
|   | <hr/>             | <hr/>                |
| TOTAL LONG-TERM LIABILITIES   | 1,106,740         | 1,125,091            |
|   | <hr/>             | <hr/>                |
| STOCKHOLDERS' EQUITY  |                   |                      |
| Preferred stock, Series A, \$.001 par value, 5,000,000<br>shares authorized, 11,400 shares issued and outstanding | 11                | 11                   |
| Preferred stock, Series B, \$.001 par value, 5,000,000<br>shares authorized, 40,000 shares issued and outstanding | 40                | 40                   |
| Common stock, \$.001 par value, 50,000,000 shares<br>authorized, 21,011,438 shares issued and outstanding         | 21,011            | 21,011               |
| Paid-in capital   | 7,080,629         | 7,080,629            |
| Retained (deficit)  | (7,573,076)       | (7,845,331)          |
|   | <hr/>             | <hr/>                |
| TOTAL STOCKHOLDERS' EQUITY  | (471,385)         | (743,640)            |
|   | <hr/>             | <hr/>                |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$ 3,929,189      | \$ 4,029,630         |
|   | <hr/>             | <hr/>                |

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

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**FindEx.com, Inc.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED DEFICIT**  
**FOR THE THREE MONTHS ENDED MARCH 31,**  
**(UNAUDITED)**

|  | 2004           | 2003           |
|--|----------------|----------------|
| REVENUES, net of reserves and allowances | \$ 1,537,264   | \$ 1,062,366   |
| COST OF SALES                            | 397,689        | 247,655        |
|  | 1,139,575      | 814,711        |
| GROSS PROFIT                             |                |                |
| OPERATING EXPENSES                       |                |                |
| Sales                                    | 217,016        | 163,997        |
| General and administrative               | 590,703        | 497,294        |
| Obsolete inventory write-off (Note 5 )   | 32,396         | 31,892         |
| Bad debt expense                         | 2,500          | --             |
| Amortization expense                     | --             | 14,362         |
| Depreciation expense                     | 9,575          | 10,610         |
|  | 852,190        | 718,155        |
| TOTAL OPERATING EXPENSES                 |                |                |
| EARNINGS FROM OPERATIONS                 | 287,385        | 96,556         |
| OTHER INCOME (EXPENSES)                  | (14,330)       | (13,812)       |
|  | 273,055        | 82,744         |
| NET INCOME BEFORE INCOME TAXES           |                |                |
| INCOME TAXES (Note 6)                    | (800)          | 8,700          |
|  | 272,255        | 91,444         |
| NET INCOME                               |                |                |
| RETAINED DEFICIT AT BEGINNING OF YEAR    |                |                |
| As previously reported                   | (7,944,278)    | (9,785,777)    |
| Prior period adjustment (Note 7)         | 98,947         | 98,947         |
|  | (7,845,331)    | (9,686,830)    |
| As restated                              |                |                |
| RETAINED DEFICIT AT END OF PERIOD        | \$ (7,573,076) | \$ (9,595,386) |
| NET EARNINGS PER SHARE (Note 8)          |                |                |
| Basic                                    | \$ 0.01        | \$ 0.00        |
| Diluted                                  | \$ 0.01        | \$ 0.00        |
| WEIGHTED NUMBER OF SHARES OUTSTANDING    |                |                |
| Basic                                    | 21,011,438     | 19,811,437     |
| Diluted                                  | 22,945,438     | 21,945,437     |

|  | 2004 | 2003 |
|--|------|------|
|--|------|------|

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

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**FindEx.com, Inc.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31,**  
**(UNAUDITED)**

|   | 2004              | 2003             |
|---|-------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                   |                  |
| Cash received from customers  | \$ 1,481,382      | \$ 1,080,633     |
| Cash paid to suppliers and employees  | (1,385,164)       | (1,025,279)      |
| Other operating activities, net   | (13,921)          | 29,648           |
|   | <u>82,297</u>     | <u>85,002</u>    |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  |                   |                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                   |                  |
| Software development costs  | (73,628)          | (66,075)         |
| Other investing activities, net   | (18,674)          | (15,374)         |
|   | <u>(92,302)</u>   | <u>(81,449)</u>  |
| <b>NET CASH (USED) BY INVESTING ACTIVITIES</b>                                    |                   |                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                   |                  |
| Proceeds from line of credit, net   | 16,605            | 11,790           |
| Payments made on long-term debt   | (17,684)          | (13,850)         |
|   | <u>(1,079)</u>    | <u>(2,060)</u>   |
| <b>NET CASH (USED) BY FINANCING ACTIVITIES</b>                                    |                   |                  |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                       | <b>(11,084)</b>   | <b>1,493</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                             | <b>142,022</b>    | <b>38,651</b>    |
|   | <u>142,022</u>    | <u>38,651</u>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                   | <b>\$ 130,938</b> | <b>\$ 40,144</b> |
|   | <u>130,938</u>    | <u>40,144</u>    |
| <b>RECONCILIATION OF NET INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES</b>       |                   |                  |
| Net income  | \$ 272,255        | \$ 91,444        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                  |
| Depreciation & amortization   | 9,575             | 24,972           |
| Provision for bad debts   | 2,500             | --               |
| Software development costs amortized  | 152,213           | 40,422           |
| Change in assets and liabilities:   |                   |                  |
| (Increase) decrease in accounts receivable  | (80,478)          | 19,916           |
| Decrease in refundable income taxes   | --                | 29,148           |
| Decrease in inventories   | 99,600            | 101,500          |
| (Increase) decrease in prepaid expenses   | (1,750)           | 18,102           |
| (Decrease) in accounts payable  | (251,996)         | (158,822)        |

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|   | <u>2004</u>       | <u>2003</u>       |
|---|-------------------|-------------------|
| Increase (decrease) in deferred taxes     | 800               | (8,700)           |
| Increase (decrease) in accrued royalties  | (100,436)         | 1,650             |
| (Decrease) in other liabilities           | (19,986)          | (74,630)          |
|   | <u>          </u> | <u>          </u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 82,297         | \$ 85,002         |
|   | <u>          </u> | <u>          </u> |

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

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**FindEx.com, Inc.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2004**  
**(UNAUDITED)**

NOTE 1 BASIS OF PRESENTATION

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

Inventory

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

Software Development Costs

In accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed, software development costs are expensed as incurred until technological feasibility 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 of current releases at March 31, 2004 were \$1,072,979, less accumulated amortization of \$566,858. Research and development costs incurred and charged to expense were \$16,174 and \$67,791 for the three months ended March 31, 2004 and 2003, respectively.

NOTE 2 - INVENTORIES

At March 31, 2004, inventories consisted of the following:

|                |                   |
|----------------|-------------------|
| Raw materials  | \$ 67,000         |
| Finished goods | 106,000           |
|                | <u>          </u> |
|                | \$ 173,000        |

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

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NOTE 3 - NOTES PAYABLE

At March 31, 2004, notes payable consisted of the following:

|  |                  |
|--|------------------|
| 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 | 33,333           |
| 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 660,000 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 460,000 restricted common shares | 23,333           |
|  | <u>\$ 89,999</u> |

NOTE 4 - LONG-TERM NOTES PAYABLE

At March 31, 2004, long-term notes payable consisted of the following:

|   |                  |
|---|------------------|
| Unsecured term note payable to a corporation due October 2004 in monthly installments of \$5,285, including interest at 8%              | \$ 53,975        |
| Term note payable to a corporation due December 2005 in monthly installments of \$6,833, including interest at 8%. Secured by inventory | 128,981          |
|   | <u>182,956</u>   |
| Less current maturities   | 128,344          |
|   | <u>\$ 54,612</u> |

Principal maturities at March 31, 2004 are as follows:

|      |                   |
|------|-------------------|
| 2005 | \$ 128,344        |
| 2006 | 54,612            |
|      | <u>\$ 182,956</u> |

NOTE 5 OBSOLETE INVENTORY WRITE-OFF

APB Opinion No. 30 requires material events or transactions that are either unusual or infrequent, but not both, to be presented in the income statement as separate elements of income from continuing operations.

During the periods ended March 31, 2004 and 2003, the Company wrote-off obsolete inventory with a carried cost totaling \$32,396 and \$31,892, respectively. These have been recognized as an expense.

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NOTE 6 INCOME TAXES

The provision for taxes on income for the three months ended March 31 consisted of the following:

|                             | <u>2004</u>            | <u>2003</u>           |
|-----------------------------|------------------------|-----------------------|
| Current:                    |                        |                       |
| Federal                     | \$       --            | \$       --           |
| State                       | --                     | --                    |
| Deferred:                   |                        |                       |
| Federal                     | (650)                  | 7,500                 |
| State                       | (150)                  | 1,200                 |
|                             | <u>         (800)</u>  | <u>         8,700</u> |
| Total tax (expense) benefit | <u>\$       ( 800)</u> | <u>\$       8,700</u> |

The reconciliation of income tax computed at statutory rates of income tax expense is as follows:

|   |                           |
|---|---------------------------|
| Expense at Federal statutory rate - 34% | \$           94,879       |
| State tax effects                       | 809,849                   |
| Nondeductible expenses                  | 983                       |
| Taxable temporary differences           | (15,109)                  |
| Deductible temporary differences        | (90,175)                  |
| Deferred tax asset valuation allowance  | (799,627)                 |
|   | <u>                  </u> |
| Income tax expense                      | <u>\$           800</u>   |

NOTE 7 PRIOR PERIOD ADJUSTMENT

During the period ended March 31, 2004, the Company adjusted retained earnings to reflect the correction of an error in recording our liability for product rebates. During the year ended December 31, 2000, the Company discontinued the use of a third-party to process rebate claims. Rebate program details were obtained from the third party and a liability recorded for the unpaid rebate claims. It was recently discovered that the unpaid rebate claims were duplicated between reports received from the third party processor and the liability recorded upon the Company's assumption of the rebate claim fulfillment. The adjustment decreased accounts payable by \$98,947, decreased deferred tax assets by \$39,451, increased the deferred tax asset valuation allowance by \$39,451, and decreased the accumulated deficit by \$98,947.

NOTE 8 EARNINGS PER COMMON SHARE

Earnings per common share are computed by dividing net income by the weighted average number of common shares and common stock equivalents outstanding during the year. Common stock equivalents are the net additional number of shares that would be issuable upon the exercise of the outstanding common stock options and warrants, assuming that the Company reinvested the proceeds to purchase additional shares at market value. A total of 4,075,283 and 4,678,450 potentially dilutive securities for the three months ended March 31, 2004 and 2003, 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 and the average number of shares of dilutive potential common stock:

| Three months ended March 31                 | 2004       | 2003       |
|---|------------|------------|
| Net Income                                  | \$ 272,255 | \$ 91,444  |
| Preferred stock dividends                   | --         | --         |
| Net income available to common shareholders | \$ 272,255 | \$ 91,444  |
| Basic weighted average shares outstanding   | 21,011,438 | 19,811,437 |
| Dilutive effect of:                         |            |            |
| Stock options                               | --         | --         |
| Convertible notes payable                   | 1,780,000  | 1,980,000  |
| Convertible preferred series A              | 114,000    | 114,000    |
| Convertible preferred series B              | 40,000     | 40,000     |
| Warrants                                    | --         | --         |
| Diluted weighted average shares outstanding | 22,945,438 | 21,945,437 |
| Earnings per share:                         |            |            |
| Basic                                       | \$ 0.01    | \$ 0.00    |
| Diluted                                     | \$ 0.01    | \$ 0.00    |

### 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.

The Company previously reached tentative settlement in a dispute with The Learning Company over various provisions of several agreements, including the software license agreement. Disposition of this tentative settlement was contingent upon settlement of negotiations with The Zondervan Corporation.

In March 2004, the Company finalized the settlement with The Zondervan Corporation and The Learning Company. The Settlement Agreement was effective October 20, 2003 and calls for FindEx to pay Zondervan a total of \$500,000, plus 5% simple interest, in installments of \$150,000, plus interest, due November 15, 2003 and January 30, 2004 (which have been paid), and installments of \$100,000, plus interest, due April 30, 2004 (which has been paid) and July 30, 2004. This agreement is secured by all rights, title and interest in QuickVerse® together with all proceeds produced by QuickVerse®. In addition, the Agreement provides for the transfer of ownership of QuickVerse®, including; (i) the object and source code, and (ii) patents, trademarks, trade names, etc., from TLC to FindEx.

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On February 28, 2003, the Internal Revenue Service approved the Company's request to pay back payroll taxes in monthly installments of \$10,000 through May 5, 2003. This was extended through January 5, 2004. The monthly installments increase to \$45,000 beginning February 5, 2004 and continuing through July 5, 2004. In April 2004, the Internal Revenue Service approved the Company's request to reduce the monthly installments from \$45,000 to \$20,000 beginning May 5, 2004.

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

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### 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 negative current ratio and total liabilities in excess of total assets. Those factors, as well as uncertainty in securing financing for continued operations, 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 new releases 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 and the plan's success. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### NOTE 12 SUBSEQUENT EVENTS

In April 2004, the Company committed to issue a total of 1,519,349 common shares to executive management in lieu of cash as payment of their 2003 accrued performance bonus. The Company also committed to issue 637,500 common shares to non-executive employees. Both are subject to a one-year lockup agreement.

In April 2004, the Company committed to issue a warrant to purchase 150,000 common shares at \$.022 per share to a law firm for corporate legal services. This warrant will be currently exercisable and will expire in April 2009.