FINDEX COM INC
Form 10-Q
November 23, 2009

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

OR

[_] 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 registrant as specified in its charter)

Nevada	88-0379462
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
620 North 129th Street, Omaha, Nebraska	68154
(Address of principal	(Zip Code)

executive
offices)

(402) 333-1900
(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [_]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [_] Accelerated filer [_]
Non-accelerated filer [_] (Do not check if a smaller reporting company) Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes [_] No [X]

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [_] No [_]

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

At November 23, 2009, the registrant had outstanding 59,572,725 shares of common stock, of which there is only a single class.

FINDEX.COM, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR FISCAL QUARTER ENDED SEPTEMBER 30, 2009

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 127,341	$ 423,371
Accounts receivable, trade, net	112,744	148,880
Inventories	55,618	81,545
Other current assets	43,945	58,270
Total current assets	339,648	712,066
Property and equipment, net	17,852	37,347
Intangible assets, net	560,074	710,771
Other assets	116,499	155,532
Total assets	$ 1,034,073	$ 1,615,716
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Current portion of debt	$ 109,589	$ 112,908
Accounts payable, trade	421,986	496,957
Accounts payable, related party	84,908	97,200
Accrued royalties	787,296	720,305
Accrued payroll	214,609	205,254
Other current liabilities	157,048	182,937
Total current liabilities	1,775,436	1,815,561
Long-term debt, net	---	8,180
Deferred income taxes, net	5,558	7,500
Commitments and contingencies (Note 8)		
Stockholders' equity (deficit):		
Preferred stock, $.001 par value		
5,000,000 shares authorized		
-0- and -0- shares issued and outstanding, respectively	---	---
Common stock, $.001 par value		
120,000,000 shares authorized,		
59,572,725 and 54,072,725 shares issued and outstanding, respectively	59,573	54,073
Paid-in capital	7,897,780	7,787,779
Retained (deficit)	(8,704,274)	(8,057,377)
Total stockholders' equity (deficit)	(746,921)	(215,525)
Total liabilities and stockholders' equity (deficit)	$ 1,034,073	$ 1,615,716

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues, net of reserves and allowances	$ 472,596	$ 425,541	$ 1,509,163	$ 1,558,056
Cost of sales	187,695	161,290	544,765	651,505
Gross profit	284,901	264,251	964,398	906,551
Operating expenses:				
Sales and marketing	96,756	125,695	359,779	467,220
General and administrative	253,092	362,250	1,233,586	1,343,824
Total operating expenses	349,848	487,945	1,593,365	1,811,044
Loss from operations	(64,947)	(223,694)	(628,967)	(904,493)
Other income (expenses), net	(5,836)	(3,247)	(17,930)	2,619
Gain on fair value adjustment of derivatives	---	---	---	305,620
Gain on settlement of derivative liabilities	---	---	---	450,654
Loss before income taxes	(70,783)	(226,941)	(646,897)	(145,600)
Income taxes	---	---	---	---
Net loss	$ (70,783)	$ (226,941)	$ (646,897)	$ (145,600)
Net loss per share - Basic & Diluted:	$ 0.00	$ 0.00	$ (0.01)	$ 0.00
Weighted average shares used in computing basic and diluted loss per share	59,572,725	54,072,725	58,122,176	53,553,381

See accompanying notes.

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

Nine Months Ended September 30,	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 1,507,621	$ 1,674,610
Cash paid to suppliers and employees	(1,543,286)	(1,832,408)
Other operating activities, net	(11,851)	11,149
Net cash used by operating activities	(47,516)	(146,649)
Cash flows from investing activities:		
Software development costs	(204,317)	(201,073)
FormTool purchase	---	(100,000)
Other investing activities, net	7,624	(77,335)
Net cash used by investing activities	(196,693)	(378,408)
Cash flows from financing activities:		
Payment made for settlement of derivative liabilities	---	(150,000)
Payments made on term debt	(51,821)	(26,722)
Net cash used by financing activities	(51,821)	(176,722)
Net decrease in cash and cash equivalents	(296,030)	(701,779)
Cash and cash equivalents, beginning of year	423,371	1,134,547
Cash and cash equivalents, end of period	$ 127,341	$ 432,768
Reconciliation of net loss to cash flows from operating activities:		
Net loss	$ (646,897)	$ (145,600)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Software development costs amortized	132,853	192,433
Depreciation & amortization	273,584	343,178
Bad debts provision	7,398	3,212
Noncash operating expenses	70,500	34,521
Gain on fair value adjustment of derivatives	---	(305,620)
Gain on settlement of derivative liabilities	---	(450,654)
Gain on sale of property and equipment	(520)	---
Change in assets and liabilities:		
Decrease in accounts receivable	28,738	152,741
Decrease in inventories	25,927	21,786
Decrease in other current assets	28,596	62,509
Increase in accrued royalties	66,991	74,445
(Decrease) increase in accounts payable	(63,151)	127
Increase (decrease) in other liabilities	28,465	(129,727)
Net cash used by operating activities	$ (47,516)	$ (146,649)
Schedule of Noncash Investing and Financing Activities:		
Long-term note payable issued for FormTool purchase	$ ---	$ 85,934
Equity issued for FormTool purchase	$ ---	$ 40,000

See accompanying notes.

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Findex.com, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2009
(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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-Q and Article 8 of Regulation S-X. 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 year or for any future period. The December 31, 2008 condensed consolidated balance sheet was derived from our audited financial statements at that date. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements of Findex.com, Inc. included in our Form 10-K for the year ended December 31, 2008.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Significant estimates used in the consolidated financial statements include the estimates of (i) doubtful accounts, obsolete inventory, sales returns, price protection and rebates, (ii) provision for income taxes and realizability of the deferred tax assets, and (iii) the life and realization of identifiable intangible assets. The amounts we will ultimately incur or recover could differ materially from current estimates.

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, and adjusted on a per-item, basis.

ACCOUNTING FOR LONG-LIVED ASSETS

We review property and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of our carrying amount to future net cash flows the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. Property and equipment to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

INTANGIBLE ASSETS

In accordance with Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 350-30, General Intangibles Other Than Goodwill, intangible assets with an indefinite useful life are not amortized. Intangible assets with a finite useful life are amortized on the straight-line method over the estimated useful lives, generally three to ten years.

SOFTWARE DEVELOPMENT COSTS

In accordance with ASC 985-20-25, Costs of Software to Be Sold, Leased, or Marketed, software development costs are expensed as incurred until technological feasibility and marketability has been established, generally with release of a beta version for customer testing. Once the point of technological feasibility and marketability is reached, direct production costs (including labor directly associated with the development projects), indirect costs (including allocated fringe benefits, payroll taxes, facilities costs, and management supervision), and other direct costs (including costs of outside consultants, purchased software to be included in the software product being developed, travel expenses, material and supplies, and other direct costs) are capitalized until the product is available for general release to customers. We amortize capitalized costs on a product-by-product basis. Amortization for each period is the greater of the amount computed using (i) the straight-line basis over the estimated product life (generally from 12 to 18 months, but up to 60 months), or (ii) the ratio of current revenues to total projected product revenues. Total cumulative capitalized software development costs were $1,042,928, less accumulated amortization of $641,446 at September 30, 2009.

Capitalized software development costs are stated at the lower of amortized costs or net realizable value. Recoverability of these capitalized costs is determined at each balance sheet date by comparing the forecasted future revenues from the related products, based on management’s best estimates using appropriate assumptions and projections at the time, to the carrying amount of the capitalized software development costs. If the carrying value is determined not to be recoverable from future revenues, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the future revenues. To date, no capitalized costs have been written down to net realizable value.

ASC 730, Research and Development, established accounting and reporting standards for research and development. In accordance with ASC 730-10, costs we incur to enhance our existing products after general release to the public (bug fixes) are expensed in the period they are incurred and included in research and development costs. Research and development costs incurred prior to determination of technological feasibility and marketability and after general release to the public and charged to expense were $125,234 and $143,147 for the nine months ended September 30, 2009 and 2008, respectively, included in general and administrative expenses.

We capitalize costs related to the development of computer software developed or obtained for internal use in accordance with the ASC 350-40, Internal-Use Software. Software obtained for internal use has generally been enterprise level business and finance software that we customize to meet our specific operational needs. We have not sold, leased, or licensed software developed for internal use to our customers and have no intention of doing so in the future.

We capitalize costs related to the development and maintenance of our website in accordance with ASC 350-50, Website Development Costs. Accordingly, costs expensed as incurred are as follows:

planning the website,
developing the applications and infrastructure until technological feasibility is established,
developing graphics such as borders, background and text colors, fonts, frames, and buttons, and
operating the site such as training, administration and maintenance.

Capitalized costs include those incurred to:

obtain and register an Internet domain name,
develop or acquire software tools necessary for the development work,
develop or acquire software necessary for general website operations,

develop or acquire code for web applications,
develop or acquire (and customize) database software and software to integrate applications such as corporate databases and accounting systems into web applications,
develop HTML web pages or templates,
install developed applications on the web server,
create initial hypertext links to other websites or other locations within the website, and
test the website applications.

We amortize website development costs on a straight-line basis over the estimated life of the site, generally 36 months. Total cumulative website development costs, included in "Other assets" on our condensed consolidated balance sheets, were $144,109, less accumulated amortization of $46,769 at September 30, 2009.

RESTRICTED CASH

Restricted cash represents cash held in reserve by our merchant banker to allow for a potential increase in credit card charge backs from increased consumer purchases. Total restricted cash at September 30, 2009 included in "Other assets" on the condensed consolidated balance sheets was $8,000.

REVENUE RECOGNITION

We derive revenues from the sale of packaged software products, product support and multiple element arrangements that may include any combination of these items. We recognize software revenue for software products and related services in accordance with ASC 985-605, Software Revenue Recognition. We recognize revenue when persuasive evidence of an arrangement exists (generally a purchase order), we have delivered the product, the fee is fixed or determinable and collectibility is probable.

In some situations, we receive advance payments from our customers. We defer revenue associated with these advance payments until we ship the products or offer the support.

In accordance with ASC 605-50, Customer Payments and Incentives, we account for cash considerations (such as sales incentives – rebates and coupons) that we give to our customers as a reduction of revenue rather than as an operating expense.

Product Revenue

We typically recognize revenue from the sale of our packaged software products when we ship the product. We sell some of our products on consignment to a limited number of resellers. We recognize revenue for these consignment transactions only when the end-user sale has occurred. Revenue for software distributed electronically via the Internet is recognized when the customer has been provided with the access codes that allow the customer to take immediate possession of the software on its hardware and evidence of the arrangement exists (web order).

Some of our software arrangements involve multiple copies or licenses of the same program. These arrangements generally specify the number of simultaneous users the customer may have (multi-user license), or may allow the customer to use as many copies on as many computers as it chooses (a site license). Multi-user arrangements, generally sold in networked environments, contain fees that vary based on the number of users that may utilize the software simultaneously. We recognize revenue when evidence of an order exists and upon delivery of the authorization code to the consumer that will allow them the limited simultaneous access. Site licenses, generally sold in non-networked environments, contain a fixed fee that is not dependent on the number of simultaneous users. Revenue is recognized when evidence of an order exists and the first copy is delivered to the consumer.

Many of our software products contain additional content that is "locked" to prevent access until a permanent access code, or "key," is purchased. We recognize revenue when evidence of an order exists and the customer has been provided with the access code that allows the customer immediate access to the additional content. All of the programs containing additional locked content are fully functional and the keys are necessary only to access the additional content. The customer's obligation to pay for the software is not contingent on delivery of the "key" to access the additional content.

We reduce product revenue for estimated returns and price protections that are based on historical experience and other factors such as the volume and price mix of products in the retail channel, trends in retailer inventory and economic trends that might impact customer demand for our products. We also reduce product revenue for the estimated redemption of end-user rebates on certain current product sales. Our rebate reserves are estimated based on the terms and conditions of the specific promotional rebate program, actual sales during the promotion, the amount of redemptions received and historical redemption trends by product and by type of promotional program. We did not offer any rebate programs to our customers during the three and nine months ended September 30, 2009 and 2008.

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Multiple Element Arrangements

We also enter into certain revenue arrangements for which we are obligated to deliver multiple products or products and services (multiple elements). For these arrangements, which include software products, we allocate and defer revenue for the undelivered elements based on their vendor-specific objective evidence (“VSOE”) of fair value. VSOE is generally the price charged when that element is sold separately.

In situations where VSOE exists for all elements (delivered and undelivered), we allocate the total revenue to be earned under the arrangement among the various elements, based on their relative fair value. For transactions where VSOE exists only for the undelivered elements, we defer the full fair value of the undelivered elements and recognize the difference between the total arrangement fee and the amount deferred for the undelivered items as revenue (residual method). If VSOE does not exist for undelivered items that are services, we recognize the entire arrangement fee ratably over the remaining service period. If VSOE does not exist for undelivered elements that are specified products, we defer revenue until the earlier of the delivery of all elements or the point at which we determine VSOE for these undelivered elements.

We recognize revenue related to the delivered products or services only if (i) the above revenue recognition criteria are met, (ii) any undelivered products or services are not essential to the functionality of the delivered products and services, (iii) payment for the delivered products or services is not contingent upon delivery of the remaining products or services, and (iv) we have an enforceable claim to receive the amount due in the event that we do not deliver the undelivered products or services.

Discounts on Future Purchases

In connection with the licensing of an existing product, we sometimes offer a discount on additional licenses of the same product or on other products. We apply a proportionate amount of the discount to each element covered by the arrangement based on each element’s fair value. If the future elements are unknown at the time of the original sale, we apply the discount to the current product(s) purchased, defer the discount amount to be recognized pro rata over the estimated period during which additional purchases will be made (typically one year), and recognize current revenue on the remainder.

Shipping and Handling Costs

We record the amounts we charge our customers for the shipping and handling of our software products as product revenue and we record the related costs as cost of sales on our condensed consolidated statements of operations.

Sales Taxes

We record the amounts we charge our customers for sales taxes assessed by state and local governments on the sale of our software products and related shipping charges, as appropriate, on the net basis. As such, we report the taxes collected as a liability on our balance sheet and do not include them in product revenue in our consolidated statements of operations.

Customer Service and Technical Support

Customer service and technical support costs include the costs associated with performing order processing, answering customer inquiries by telephone and through websites, email and other electronic means, and providing technical support assistance to our customers. In connection with the sale of certain products, we provide a limited amount of free technical support assistance to customers. We do not defer the recognition of any revenue associated with sales of these products, since the cost of providing this free technical support is insignificant. The technical support is provided within one year after the associated revenue is recognized and free product enhancements (bug fixes) are minimal and infrequent. We accrue the estimated cost of providing this free support upon product shipment and include it in cost of sales.

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INCOME TAXES

We follow the guidance of ASC 740, Income Taxes. Accordingly we use the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

EARNINGS PER SHARE

We follow the guidance of ASC 260, Earnings Per Share, to calculate and report basic and diluted earnings per share (“EPS”). Basic EPS is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding for the period. Diluted EPS is computed by giving effect to all dilutive potential shares of common stock that were outstanding during the period. For us, dilutive potential shares of common stock consist of the incremental shares of common stock issuable upon the exercise of stock options and warrants for all periods, convertible notes payable and the incremental shares of common stock issuable upon the conversion of convertible preferred stock.

When discontinued operations, extraordinary items, and/or the cumulative effect of an accounting change are present, income before any of such items on a per share basis represents the “control number” in determining whether potential shares of common stock are dilutive or anti-dilutive. Thus, the same number of potential shares of common stock used in computing diluted EPS for income from continuing operations is used in calculating all other reported diluted EPS amounts. In the case of a net loss, it is assumed that no incremental shares would be issued because they would be anti-dilutive. In addition, certain options and warrants are considered anti-dilutive because the exercise prices were above the average market price during the period. Anti-dilutive shares are not included in the computation of diluted EPS, in accordance with ASC 260-10-45-17.

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

For the Three Months Ended September 30,	2009	2008
Net loss	$ (70,783)	$ (226,941)
Preferred stock dividends	---	---
Net loss available to common shareholders	$ (70,783)	$ (226,941)
Basic weighted average shares outstanding	59,572,725	54,072,725
Dilutive effect of:		
Stock options	---	---
Warrants	---	---
Diluted weighted average shares outstanding	59,572,725	54,072,725

	2009	2008

For the Nine Months Ended September 30,		
Net loss	$ (646,897)	$ (145,600)
Preferred stock dividends	---	---
Net loss available to common shareholders	$ (646,897)	$ (145,600)
Basic weighted average shares outstanding	58,122,176	53,553,381
Dilutive effect of:		
Stock options	---	---
Warrants	---	---
Diluted weighted average shares outstanding	58,122,176	53,553,381

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RECENT ACCOUNTING PRONOUNCEMENTS

Certain Arrangements That Contain Software Elements

In September 2009, the EITF reached final consensus on a new revenue recognition standard, Issue No. 09-3, Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Contain Software Elements. EITF 09-3 amends the scope of AICPA Statement of Position 97-2, Software Revenue Recognition (now codified as ASC 985, Revenue Recognition) to exclude tangible products that include software and non-software components that function together to deliver the product's essential functionality. This issue shall be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Earlier application is permitted as of the beginning of a company's fiscal year provided the company has not previously issued financial statements for any period within that year. Early application is not permitted unless early application of EITF 08-1 is also adopted. We are currently evaluating the potential impact of EITF 09-3 on our condensed consolidated financial statements.

Revenue Arrangements with Multiple Deliverables

In September 2009, the EITF reached final consensus on a new revenue recognition standard, Issue No. 08-1, Revenue Arrangements with Multiple Deliverables. EITF 08-1 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how the arrangement consideration should be allocated among the separate units of accounting. EITF 08-1 is effective for fiscal years beginning after June 15, 2010 and may be applied retrospectively or prospectively for new or materially modified arrangements. In addition, early adoption is permitted. We are currently evaluating the potential impact of EITF 08-1 on our condensed consolidated financial statements.

Accounting Standards Codification and GAAP Hierarchy

In June 2009, the FASB issued Update No. 2009-01, which established the FASB Accounting Standards CodificationTM ("the Codification") as the source of authoritative U.S. Generally Accepted Accounting Principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of the Codification did not have a material impact on our condensed consolidated financial statements.

Amendment to FASB Interpretation No. 46(R)

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), to clarify and improve financial reporting by entities involved with variable interest entities. SFAS No. 167 is effective as of the beginning of the annual period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. We do not expect SFAS No. 167 to have a material impact on our condensed consolidated financial statements.

Transfers of Financial Assets

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140, to clarify information that an entity must provide in its financial statements surrounding a transfer of financial assets and the effect of the transfer on its financial position, financial performance, and cash flows. SFAS No. 166 is effective as of the beginning of the annual period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. We do not expect SFAS No. 166 to have a material impact on our condensed consolidated financial statements.

Subsequent Events

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, (now codified as ASC 855, Subsequent Events) to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or available to be issued. The guidance is effective for interim or annual financial periods ending after June 15, 2009. Adoption of this authoritative guidance did not have a material impact on our condensed consolidated financial statements.

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RECLASSIFICATIONS

Certain accounts in our 2008 financial statements have been reclassified for comparative purposes to conform with the presentation in our 2009 financial statements.

NOTE 2 – GOING CONCERN

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States applicable to a going concern. As of September 30, 2009, we had a year-to-date net loss of $646,897, and negative working capital of $1,435,788, and an accumulated deficit of $8,704,274 and $8,057,377 as of September 30, 2009 and December 31, 2008, respectively. Although these factors raise substantial doubt as to our ability to continue as a going concern through December 31, 2009, we have taken several actions intended to mitigate against this risk. These actions include relying on the approximately $127,000 cash reserve from the 2007 sale of our Membership Plus product line and pursuing mergers and acquisitions that will provide profitable operations and positive operating cash flow.

NOTE 3 – INVENTORIES

At September 30, 2009, inventories consisted of the following:

Raw materials	$54,889
Finished goods	16,763
Less reserve for obsolete inventory	(16,034)
Inventories	$55,618

NOTE 4 – PRODUCT LINE ACQUISITION

On February 25, 2008, we acquired the FormTool software product line from ORG Professional, LLC. The purchase price of approximately $226,000 was comprised as follows:

Description	Amount
Fair value of common stock	$ 40,000
Cash	100,000
Promissory note	85,934
Total	$ 225,934

The fair value of our common stock was determined based on 1,000,000 restricted shares of our common stock issued and priced at the closing price as of February 22, 2008 ($0.04).

The allocation of the purchase price to the assets acquired based on their estimated fair values was as follows:

Description	Amount
Trademark/Trade name	$ 67,780
Internet domain names	33,890
Customer list	22,594
Copyrights	67,780
Computer software code	22,594
Distribution agreements	11,296
Total	$ 225,934

The assets will be amortized over a period of years as follows:

Description	Estimated Remaining Life (years)
Trademark/Trade name/Copyrights	10
Internet domain names	5
Customer list/Computer software code	3
Distribution agreements (remaining contract term)	.33

One of our outside directors currently owns a 5% equity interest in ORG Professional, LLC, and agreed to forego any direct personal economic benefit to which he would otherwise be entitled, including the restricted shares of our common stock issuable as part of the consideration.

During the three months ended September 30, 2009 and 2008, sales from the FormTool software product line were approximately 3% and 5%, respectively, of our gross sales and approximately 4% and 2%, respectively, for the nine months then ended.

NOTE 5 – RESERVES AND ALLOWANCES

At September 30, 2009, the allowance for doubtful accounts included in Accounts receivable, trade, net, consisted of the following:

Balance December 31, 2008	$16,300
Bad debts provision (included in Other operating expenses)	7,398
Accounts written off	(9,061)
Collection of accounts previously written off	1,233
Balance September 30, 2009	$15,870

At September 30, 2009, the reserve for obsolete inventory included in Inventories consisted of the following:

Balance December 31, 2008	$15,500
Provision for obsolete inventory	7,096
Obsolete inventory written off	(6,562)
Balance September 30, 2009	$16,034

At September 30, 2009, the reserve for sales returns included in Other current liabilities consisted of the following:

Balance December 31, 2008	$119,821
Return provision – sales	168,300
Return provision – cost of sales	(25,245)
Returns processed	(175,334)
Balance September 30, 2009	$87,542

NOTE 6 – DEBT

At September 30, 2009, the current portion of debt consisted of the following:

Unsecured term note payable to a premium finance company due April 2010 in monthly installments of $1,664, including interest at 5.73%.	$	11,428
Unsecured term note payable to a vendor for advertising due July 2010 in monthly installments of $2,000, including interest at 10%.		18,721
Total short-term notes payable		30,149
Add: Current maturities of long-term debt		79,440
Current portion of debt	$	109,589

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At September 30, 2009, long-term debt consisted of the following:

Capital lease obligation payable to a corporation due November 2009 in monthly installments of $1,144, including interest at 11.7%. Secured by telephone equipment.	$	3,366
Unsecured term note payable to a shareholder due March 2008 in monthly installments of $10,000, plus interest at 8%, through April 2007, and monthly installments of $20,000, plus interest at 8%, beginning May 2007. Interest on overdue principal accrues at 15%.		56,000
Unsecured term note payable to a limited liability company due February 2010 in monthly installments of $4,167, including simple interest at 15%. See Note 4.		20,074
Total Long-term debt		79,440
Less: Current maturities		(79,440)
Long-term debt, net	$	---

At September 30, 2009, we were current on the unsecured term notes payable to the premium finance company, the advertising vendor, and the limited liability company. We were in arrears for the final three payments of the unsecured term note payable to a shareholder and the September 2009 installment of the capital lease obligation.

NOTE 7 – STOCKHOLDERS’ EQUITY