

FINDEX COM INC  
Form 10QSB/A  
December 21, 2005

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

**FORM 10-QSB/A  
Amendment No. 2**

(Mark One)

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

For the quarterly period ended September 30, 2004.

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 0-29963

**FINDEX.COM, INC.**

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

Nevada (State or other jurisdiction of incorporation or organization)	88-0379462 (I.R.S. Employer Identification No.)
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11204 Davenport Street, Suite 100, Omaha, Nebraska (Address of principal executive offices)	68154     (Zip Code)
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(402) 333-1900  
(Issuer's telephone number, including area code)

NA.

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

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

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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 48,619,855 common shares as of December 21, 2005.

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

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### Explanatory Note

We are filing this Amendment Number 2 to our Quarterly Report on Form 10-QSB for the three and nine months ended September 30, 2004 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 2 to Form 10-QSB for the quarter ended September 30, 2004. 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 this report. Our management and our board of directors have concluded that these restatements are necessary to reflect the following changes.

Revisions affecting our condensed consolidated statements of operations:

- In June 1999 we entered into a certain software license agreement with Parsons Technology, Inc. to manufacture, distribute and sell a variety of software titles, including QuickVerse® and Membership Plus®, by far our two largest selling titles. During the quarter ended June 30, 2002, we reached a tentative settlement agreement in an arbitration arising out of the 1999 license with The Learning Company (“TLC”), the licensor-assignee at the time. The tentative settlement agreement forgave the final, unpaid installment due on the 1999 license and extended the term from 10 years to 50 years. We originally recorded the final, unpaid installment (\$1,051,785) as an offset against the recorded historical cost of the 1999 license, and recalculated the amortization based on this reduced amount and the extension of the useful life to 50 years. 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 passed 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 our consolidated statement of operations for the year ended December 31, 2002. This adjustment reduced our retained deficit at September 30, 2003 and 2004 which was originally reported but had no effect on our condensed consolidated statements of operations or consolidated statements of cash flows for the periods then ended.
- During the quarter ended December 31, 2003, we reached a final settlement agreement in a second dispute arising out of the 1999 license with Zondervan and TLC. This final settlement extended the life of the 1999 license, and the trademarks included therein, indefinitely. We originally reassessed the useful life of the 1999 license to be indefinite, based on the guidelines provided by paragraphs 11 and 53 of SFAS No. 142, *Goodwill and Other Intangible Assets*. Our management has since concluded a 10 year life is appropriate on the basis of our going concern opinions for the years ended December 31, 2002 and 2003. Therefore, we have restored the estimated economic useful life to the original 10 years and have recalculated annual amortization accordingly. This adjustment increased our retained deficit at September 30, 2003 (for the prior years’ amortization and related income tax effects) and decreased our net income for the three and nine months ended September 30, 2004. There was no net effect on our consolidated statements of cash flows for the nine months ended September 30, 2003 and 2004, respectively.
- During the three months ended June 30, 2004, we had previously, and erroneously, included rebates, and adjustments to rebates, as part of our sales and marketing expenses. The more appropriate presentation should have been, and is now, as an adjustment to revenue, as in accordance with EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products)*. During the three months ended June 30, 2004, we recorded an adjustment to our rebates reserve in the amount of \$266,301 and an adjustment to rebates payable in the amount of \$12,599. Upon reassessment of the adequacy of our reserve at December 31, 2003, we have allocated \$124,262 of the total adjustment to fiscal year 2003 with \$14,793 allocated to the three months ended June 30, 2003, \$50,297 allocated to the three months ended September 30, 2003 and \$59,172 allocated to the

three months ended December 31, 2003 and \$142,039 to fiscal year 2004 with \$66,575 allocated to the three months ended March 31, 2004 and \$75,464 allocated to the three months ended June 30, 2004. These adjustments resulted from a change in our internal control over financial reporting. Previously, when making our assessment of the adequacy of our reserve for rebates, we did not take into consideration the amount and number of outstanding checks, issued checks that were returned as undeliverable, or our ability to meet our recorded financial obligation. We changed our internal control procedures to include review of each of these factors in our assessment of the adequacy of the reserve for rebates. We have restated the condensed consolidated balance sheets as of September 30, 2004 and 2003 and the condensed consolidated statements of operations and consolidated statements of cash flows for the three and nine months then ended.

- We erroneously treated the warrants issued to a New York based private investment partnership in connection with a private placement as equity. The correct presentation is as a liability adjusted for changes in fair value, at each balance sheet date, through the consolidated statements of operations, as provided by EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. We reclassified the initial fair value of the warrants (\$4,375,000 at July 19, 2004) as a current liability (\$3,062,500 at September 30, 2004) and have included the net change in fair value through September 30, 2004 (\$1,385,422) in other expenses on the consolidated statements of operations.

Revisions resulting in reclassifications or clarification with no net effect on our condensed consolidated statements of operations:

- During the year ended December 31, 2003, we decided to no longer provide support for and to destroy all remaining inventory of certain of our products. We originally recorded this as a non-recurring item in the other income (expense) section of our consolidated statements of operations for the year ended December 31, 2003. We have revised our condensed consolidated statements of operations for the three and nine months ended September 30, 2003 to reflect this obsolete inventory in the cost of Sales section.
- During the year ended December 31, 2003, we reached a final settlement agreement in our dispute with Zondervan and TLC. As part of the settlement process, we conducted an internal audit (verified by an independent auditor provided by TLC) of the accrued royalties owed Zondervan. The audit revealed that accrued royalties had been overstated due to the 2001 bad debt recognition of TLC's trade accounts receivable balance. The amount by which the accrued royalties had been overstated remained part of our dispute with Zondervan and as such remained in our liabilities until a final settlement agreement was reached. We originally had reported the adjustment as a non-recurring item in the other income (expense) section of our consolidated statements of operations. The revised condensed consolidated statements of operations for the three and nine months ended September 30, 2003 reflects the adjustment as other income in the other income (expense) section.
- During the year ended December 31, 2003, we reclassified loan proceeds, and the corresponding accrued interest payable, that were previously recorded as an unsecured note payable. The proceeds were initially recorded as an unsecured note payable in 1999, based on an oral understanding with an employee of a third-party consultant. We had historically accrued interest on the outstanding balance at 9%, the rate deemed reasonable by our management at the time of the oral agreement. We continued to accrue interest on the proceeds until we made the determination to reclassify the proceeds and accumulated accrued interest based on the fact that (i) the obligation exists, if at all, solely pursuant to an oral loan agreement made in 1999 in the State of North Carolina with a representative of the party to whom the obligation was believed to have been owed, (ii) no party has ever made any demand for repayment thereof despite the fact that no payments have ever been made on the obligation, (iii) the party believed to be owed the obligation, upon inquiry, claims no record of any such obligation, and (iv) the State of North Carolina statute of limitations applicable to oral agreements, believed to govern the continued enforceability of the obligation, had expired. We originally reported the reclassification as a non-recurring item in the other income (expense) section of our consolidated statements of operations for the year ended December 31, 2003. We have revised our condensed consolidated statements of operations for the three and nine months ended September 30, 2003 to reflect the adjustment as other income in the other income (expense) section.
- During the three months ended March 31, 2004, and as a direct result of the final settlement agreement with Zondervan and TLC, we wrote-off certain inventory containing Zondervan-owned content. Though not technologically obsolete, we were unable to sell the inventory under the terms of the final settlement agreement. We originally recorded this event as a non-recurring item in the other income (expense) section of our condensed consolidated statements of operations. We have revised our condensed consolidated statements of operations for the three and nine months ended September 30, 2004 to reflect this inventory adjustment in the cost of sales section.



- During the three months ended September 30, 2004, we settled a dispute for early termination arising out of an agreement with Swartz Private Equity. In connection therewith, we issued 295,692 shares of common stock valued at \$0.10 per share and paid a cash lump sum of \$125,000. We originally had recorded this transaction as expenses incurred in a withdrawn public offering and reflected it as a non-recurring item in our condensed consolidated statements of operations. We have revised our condensed consolidated statements of operations for the three and nine months ended September 30, 2004 to reflect this transaction as other expenses in the other income (expense) section.
- During the three months ended September 30, 2004, we negotiated a settlement agreement for debt extinguishment with several of our creditors. The debt extinguishment was originally reported as an extraordinary item, net of income tax effects, on our condensed consolidated statements of operations. We have revised our condensed consolidated statements of operations for the three and nine months ended September 30, 2004 to reflect this transaction in the other income section.
- We had previously, and erroneously, treated our 2004 rebates reserve adjustment as an expense recovery in operating expenses. The more appropriate presentation should have been, and is now, an adjustment to revenue, in accordance with EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*.
- We have also reclassified various expense items in our condensed consolidated statements of operations for the three and nine months ended September 30, 2004 and 2003 to conform with the presentation in our statements of operations for the years ended December 31, 2004 and 2003. There was no net effect on our net income (loss) for the three and nine months ended September 30, 2004 and 2003 as a result of our correction of these errors.

A discussion of the restatement for the quarter ended September 30, 2004 is included in Note 15 of our condensed consolidated financial statements included in this Amendment Number 2 to Form 10-QSB for the quarter ended September 30, 2004. 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 2 to Form 10-QSB for the quarter ended September 30, 2004 does not otherwise change or update the disclosures set forth in the Form 10-QSB as originally filed and does not otherwise reflect events occurring after the filing of the form 10-QSB. For a description of our business and the risks related to our business, see our Annual Report on Form 10-KSB/A for the year ended December 31, 2004.

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

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

	<b>September 30, 2004 (Restated)</b>	<b>September 30, 2003 (Restated)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 539,399	\$ 38,265
Accounts receivable, trade	296,850	141,173
Inventory	162,800	252,700
Other current assets	139,495	42,464
Total current assets	1,138,544	474,602
Property and equipment, net	61,518	68,507
Software license, net	2,391,660	2,895,168
Software development, net	602,276	474,385
Restricted cash	50,354	50,000
Other assets	86,301	58,610
Total assets	\$ 4,330,653	\$ 4,021,272
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Notes payable	\$ 240,000	\$ 749,999
Accrued royalties	236,949	1,616,556
Accounts payable, trade	410,179	582,648
Derivatives	3,062,500	---
Other current liabilities	445,776	1,569,330
Total current liabilities	4,395,404	4,518,533
Long-term note payable	---	92,537
Non-current deferred taxes	808,083	773,765
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	---	51
Common stock	46,153	21,011
Paid-in capital	7,260,469	7,080,629
Retained (deficit)	(8,179,456)	(\$8,465,254)
Total stockholders' equity	(872,834)	(1,363,563)
Total liabilities and stockholders' equity	\$ 4,330,653	\$ 4,021,272

*See accompanying notes.*



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

	Three Months Ended		Nine Months Ended	
	2004	2003	2004	2003
	(Restated)	(Restated)	(Restated)	(Restated)
Revenues, net of reserves and allowances	\$ 1,010,207	\$ 796,765	\$ 3,664,060	\$ 2,644,240
Cost of sales	397,652	272,498	1,137,721	833,641
Gross profit	612,555	524,267	2,526,339	1,810,599
Operating expenses:				
Sales and marketing	287,909	186,841	798,410	521,441
General and administrative	512,721	392,700	1,684,295	1,206,773
Bad debt provision	8,566	4,893	11,066	4,893
Depreciation and amortization	141,607	137,039	416,246	411,041
Total operating expenses	950,803	721,473	2,910,017	2,144,148
Loss from operations	(338,248)	(197,206)	(383,678)	(333,549)
Other income	1,008,682	2,803	1,009,798	587,464
Loss on valuation adjustment of derivatives	(1,385,422)	---	(1,385,422)	---
Other expenses, net	(161,220)	(21,467)	(192,854)	(58,871)
Income (loss) before income taxes	(876,208)	(215,870)	(952,156)	195,044
Provision for income taxes	(31,095)	56,616	(92,417)	169,848
Net income (loss)	\$ (907,303)	\$ (159,254)	(1,044,573)	364,892
Retained (deficit) at beginning of year			(7,130,758)	(8,830,146)
Preferred stock dividend			(4,125)	---
Retained (deficit) at end of period			\$ (8,179,456)	\$ (8,465,254)
Net earnings (loss) per share:				
Basic	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ 0.02
Diluted	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ 0.02
Weighted average shares outstanding:				
Basic	46,153,189	21,011,438	30,146,980	20,211,438
Diluted	46,153,189	21,011,438	30,146,980	22,365,438

*See accompanying notes.*

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

<b>Nine Months Ended September 30</b>	<b>2004</b>	<b>2003</b>
	<b>(Restated)</b>	<b>(Restated)</b>
Cash flows from operating activities:		
Cash received from customers	\$ 3,607,255	\$ 3,092,147
Cash paid to suppliers and employees	(4,368,409)	(2,661,410)
Other operating activities, net	(34,235)	36,479
Net cash provided (used) by operating activities	(795,389)	467,216
Cash flows from investing activities:		
Acquisition of property and equipment	(25,332)	(8,047)
Software development costs	(415,197)	(366,101)
Website development costs	(31,836)	(30,373)
Deposits (refunded) made	50,016	(50,500)
Net cash (used) by investing activities	(422,349)	(455,021)
Cash flows from financing activities:		
Proceeds from (payments on) line of credit, net	(20,933)	24,918
Payments made on long-term notes payable	(202,551)	(37,499)
Proceeds from convertible notes payable	240,000	---
Stock offering costs paid	(51,047)	---
Proceeds from issuance of common stock and warrants	1,750,000	---
Net cash provided (used) by financing activities	1,715,469	(12,581)
Net increase (decrease) in cash and cash equivalents	497,731	(386)
Cash and cash equivalents, beginning of year	41,668	38,651
Cash and cash equivalents, end of period	\$ 539,399	\$ 38,265
Reconciliation of net income (loss) to cash flows from operating activities:		
Net income (loss)	\$ (1,044,573)	\$ 364,892
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Software development costs amortized	397,627	172,217
Provision for bad debts	11,066	4,893
Common stock and warrants issued for services	73,700	52,750
Depreciation and amortization	416,245	411,041
Loss on valuation adjustment of derivatives	1,385,422	---
Debt forgiveness	(1,000,662)	---
Loss on disposal of property and equipment	141	---
Change in assets and liabilities:		
Decrease in accounts receivable	57,887	82,175
Decrease in inventories	109,800	164,000
(Increase) decrease in refundable income taxes	(2,948)	47,950
(Increase) in prepaid expenses	(114,629)	(3,716)
(Decrease) in accrued royalties	(381,677)	(514,057)
(Decrease) in accounts payable	(407,683)	(324,916)
Increase (decrease) in income taxes payable	(950)	---
Increase (decrease) in deferred taxes	90,931	(169,848)

Increase (decrease) in other liabilities		<b>(385,086)</b>		179,835
Net cash provided by operating activities	\$	<b>(795,389)</b>	\$	467,216

*See accompanying notes.*

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**FindEx.com, Inc.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2004 and 2003**  
**(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.

**Amortization**

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, 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. Our software license was originally amortized over an estimated useful life of 10 years. During the year ended December 31, 2002, the Company reached a tentative settlement agreement with TLC which called for the extension of the estimated life of the license from 10 years to 50 years. On October 20, 2003, the Company reached settlement in a dispute with The Zondervan Corporation and TLC. The settlement, amongst other things, extended the life of the agreement indefinitely and provides the Company with the exclusive worldwide right to market, sell, and continue to develop those titles it covers. 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.

**Software Development Costs**

In accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. Capitalized costs are amortized on a product-by-product basis using the greater of the straight-line method over the estimated product life or on the ratio of current revenues to total projected product revenues. The Company generally considers technological feasibility is established with the release of a beta version for testing. Total capitalized software development costs at September 30, 2004 were \$1,374,901, less accumulated amortization of \$772,625. Research and development costs incurred and charged to expense were \$532 and \$18,500 for the three months ended September 30, 2004 and 2003, respectively and \$44,228 and \$116,294 for the nine months ended September 30, 2004 and 2003, respectively.

**Derivatives, (Restated)**

We account for warrants issued with shares of common stock in a private placement according to the guidance of EITF Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. In accordance with the accounting mandate, the derivative liability associated with the warrants has been and, until our registration statement on Form SB-2 originally filed on November 22, 2004 is declared effective, shall continue to be adjusted to fair value (calculated using the Black-Scholes method) at each balance sheet date and accordingly reassessed at each such date to determine whether the warrants should be classified (or reclassified, as appropriate) as a liability or as equity. The corresponding fair value adjustment is included in the consolidated statements of operations as other expenses should the value of the warrants increases from an increase in our stock price at the balance sheet date and as other income should the value of the warrants decreases from a decrease in our stock price at the balance sheet date.

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**NOTE 2 - INVENTORIES, (Restated)**

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

	2004	2003
Raw materials	\$ 73,100	\$ 53,000
Finished goods	89,700	199,700
	<b>\$ 162,800</b>	<b>\$ 252,700</b>

During the quarters ended March 31, 2004 and 2003 and September 30, 2003, the Company wrote-off distinctly different categories of obsolete inventory with a carried cost totaling \$32,396, \$31,892 and \$28,900, respectively. The 2004 obsolete inventory was a direct result of the March 2004 settlement with The Zondervan Corporation. These have been recognized as cost of sales.

See Note 15 - Restatement and Reclassification.

**NOTE 3 - NOTES PAYABLE**

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

	2004	2003
Unsecured demand note payable to a corporation, with interest at 9%.	\$ ---	\$ 650,000
Note payable to a corporation, due May 31, 2003, with interest compounded monthly at 1.5%. Unsecured. Convertible at the option of the holder into 666,666 restricted common shares.	---	33,333
Note payable to a corporation, due May 31, 2003, with interest compounded monthly at 1.5%. Unsecured. Convertible at the option of the holder into 666,666 restricted common shares.	---	33,333
Note payable to a corporation, due May 31, 2003, with interest compounded monthly at 1.5%. Unsecured. Convertible at the option of the holder into 666,666 restricted common shares.	---	33,333
Note payable to an individual, due August 2005, with annual interest at 7.5%. Unsecured. Convertible at the option of the holder into 1,000,000 restricted common shares.	<b>120,000</b>	---
	<b>120,000</b>	---

Note payable to an individual, due August 2005, with annual interest at 7.5%. Unsecured. Convertible at the option of the holder into 1,000,000 restricted common shares.

\$	<b>240,000</b>	\$	749,999
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**NOTE 4 - LONG-TERM NOTES PAYABLE**

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

	2004	2003
Unsecured term note payable to a corporation due October 2004 in monthly installments of \$5,285, including interest at 8%.	\$ 34,070	\$ 68,545
Term note payable to a corporation due December 2005 in monthly installments of \$6,833, including interest at 8%. Secured by inventory.	---	164,000
	<b>34,070</b>	<b>232,545</b>
Less current maturities	<b>34,070</b>	140,008
	<b>\$ ---</b>	<b>\$ 92,537</b>

**NOTE 5 - STOCKHOLDERS' EQUITY, (Restated)****Common Stock**

In April 2004, the Company issued a total of 1,519,349 restricted common shares to the executive management team as payment of the 2003 accrued performance bonus.

In April 2004, the Company resolved to issue 637,500 restricted common shares to the non-executive employees as additional compensation pursuant to an incentive and retention bonus program. In July, 2004, the Company removed 2,500 restricted common shares from the resolution due to voluntary separation from service by a part-time employee. These shares were valued at \$.022 per share.

In June 2004, the Company issued 324,074 restricted common shares to the outside Board of Directors in lieu of cash compensation for the period from July 2003 through August 2004. These shares were valued at \$.081 per share.

In July 2004, the holders of 11,400 shares of Preferred Series A and the holders of 40,000 shares of Preferred Series B elected to convert such shares into 218,000 common shares and 266,667 common shares, respectively. In addition, the holders converted \$4,125 unpaid accumulated Preferred Series A dividends into 56,353 common shares.

In July 2004, the Company issued 295,692 non-restricted common shares in settlement of an agreement with an institutional private equity investor. These shares were valued at \$.10 per share. A warrant dated March 26, 2001 to purchase 510,000 common shares exercisable at \$0.23 per share was cancelled in the settlement.

In July 2004, the Company issued 21,875,000 restricted common shares for proceeds of \$1,750,000 through a private placement with a New York based private investment partnership. In connection with this issuance, we incurred \$51,047 in legal and other direct costs. In addition, according to the terms of the agreement, the investor is entitled to receive two warrants to purchase common stock. The first warrant would entitle the investor to purchase up to 10,937,500 common shares at an initial price of \$0.18 per share, and the second warrant would entitle the investor to purchase up to 10,937,500 additional common shares at an initial price of \$0.60 per share; each warrant is subject to standard adjustment provisions.

In July 2004, the Company removed 48,387 previously resolved but un-issued common shares associated with an unexecuted 2001 stock subscription agreement.



### **Common Stock Options**

In June 2003, we granted an employee 500,000, fully vested stock options with an exercise price of \$0.05 per share. These options expire in June 2013. In addition, 667 unvested stock options with an exercise price of \$1.00 and 6,250 unvested stock options with an exercise price of \$0.11 were forfeited upon termination and 16,250 vested stock options with an exercise price of \$1.00 and 30,000 vested stock options with an exercise price of \$0.11 expired after termination. There was no effect on the financial statements resulting from these transactions. In July 2004, we cancelled 190,200 vested stock options with an exercise price of \$1.00 per share and 525,000 vested stock options with an exercise price of \$1.03 per share. In addition, 100,000 vested stock options with an exercise price of \$0.11 were voluntarily forfeited by management and 1,333 vested stock options with an exercise price of \$1.00 and 38,750 vested stock options with an exercise price of \$0.11 expired after termination. We apply APB Opinion No. 25 and related interpretations in accounting for our stock options. Accordingly, no compensation cost has been recognized for these stock options and therefore, there was no effect on the financial statements resulting from these cancellations. We did not grant any options or other stock-based awards to any of the individuals for which the options were canceled, during the six months prior to and after the option cancellation.

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**Common Stock Warrants**

In April 2004, we issued a warrant for 150,000 shares of common stock with an exercise price of \$0.022 per share to our corporate counsel as payment for \$3,300 of accrued legal services.

In May 2004, we issued a warrant for 600,000 shares of common stock with an exercise price of \$0.15 per share to a consultant for corporate business planning, financing, and merger and acquisition assistance. This warrant was valued at \$63,215 using the Black-Scholes method and recorded as an expense.

In July 2004, we cancelled a warrant for 510,000 shares of common stock with an exercise price of \$0.23 per share with an institutional private equity investor in connection with a settlement in which 295,692 non-restricted shares of common stock were issued.

See Note 15 - Restatement and Reclassification.

**NOTE 6 - OTHER INCOME AND EXPENSES, (Restated)**

During the quarter ended September 30, 2004, the Company settled an agreement with an institutional private equity investor for early termination of the agreement. The Company issued 295,692 common shares valued at \$.10 per share and paid a cash lump sum of \$125,000. A total of \$154,569 has been treated as expenses incurred in a withdrawn public offering and included in other expenses, net in the condensed consolidated statements of operations.

During the quarter ended September 30, 2004, we settled with various vendors and content providers for lump-sum payments ranging from approximately 17% to approximately 60% of balances owed. The difference between the balance owed and the settlement amount, totaling \$1,000,662, has been treated as gain from extinguishment of debt in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and classified as other income in the condensed consolidated statements of operations.

During the quarter ended June 30, 2003, we recorded an adjustment to the balance of accrued royalties in the amount of \$583,628. This adjustment resulted from the settlement with Zondervan and TLC. The adjustment was related to sales we made to TLC that remained in dispute until verified by an independent third-party audit of the sales and related royalty calculations. The disputed sales were part of the calculation of the June 30, 2001 bad debt provision totaling \$2,391,000. This has been included in other income.

In November 2004, we issued two warrants to purchase an aggregate of 21,875,000 shares of our common stock in connection with a certain Stock Purchase Agreement completed with Barron Partners, LP, on July 19, 2004. The first warrant entitles the holder to purchase up to 10,937,500 shares of our common stock at a price of \$0.18 per share, and the second warrant entitles the holder to purchase up to 10,937,500 additional shares of our common stock at a price of \$0.60 per share. Each warrant is subject to standard adjustment provisions and each provides for settlement in registered shares of our common stock and may, at the option of the holder, be settled in a cashless, net-share settlement. These warrants have been accounted for as a liability according to the guidance of EITF 00-19 and the fair value of each warrant has been assessed at \$1,531,250 (\$3,062,500 total) using the Black-Scholes valuation method at September 30, 2004 with the following assumptions:

	<b>Warrant A</b>	<b>Warrant B</b>
Expected term - years	4.80	4.80
Stock price on September 30, 2004	\$ 0.14	\$ 0.14
Exercise price	\$ 0.18	\$ 0.60
Expected dividend yield	0%	0%

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Expected stock price volatility	490%	490%
Risk-free interest rate	3.80%	3.80%

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The fair value of each warrant was estimated on the date of commitment with the following assumptions:

	Warrant A	Warrant B
Expected term - years	5	5
Stock price on date of commitment (July 19, 2004)	\$ 0.20	\$ 0.20
Exercise price	\$ 0.18	\$ 0.60
Expected dividend yield	0%	0%
Expected stock price volatility	490%	490%
Risk-free interest rate	3.80%	3.80%

We recognized a loss of \$2,697,922 on the commitment of the warrants determined as follows:

Fair value of warrants on commitment date (July 19, 2004)		\$ 4,375,000
Less: Net proceeds received		
Gross proceeds received for stock and warrants	\$ 1,750,000	
Par value of common stock issued	(21,875)	
Stock offering costs	(51,047)	\$ 1,677,078
Loss on fair value adjustment of derivatives		\$ 2,697,922

The warrants are revalued at each balance sheet date by using the parameters described above, reducing the expected term to reflect the passing of time, and using the stock price at the balance sheet date. A net fair value adjustment of \$1,385,422 has been included in other expenses on the consolidated statements of operations for the three and nine months ended September 30, 2004.

See Note 15 - Restatement and Reclassification.

#### **NOTE 7 - REBATE RESERVE ADJUSTMENT, (Restated)**

During the year ended December 31, 2004, we recorded an adjustment to the rebates reserve in the amount of \$266,301. The reserve balance properly reflects open rebate programs and the estimated balance of each that management expects to pay. This adjustment resulted from an internal review of the amount owed and our ability to reach the intended rebate recipients and properly reflects historical response rates. This has been recognized as an adjustment to revenue in accordance with EITF Issue No. 01-09.

Upon reassessment of the adequacy of our reserve at December 31, 2003, we have allocated \$124,262 of the total adjustment to fiscal year 2003 and \$142,039 to fiscal year 2004 with \$66,575 to the three months ended March 31, 2004 and \$75,464 allocated to the three months ended June 30, 2004.

See Note 15 - Restatement and Reclassification.

#### **NOTE 8 - INCOME TAXES**

We compute our provision for or benefit from income taxes by applying the estimated annual effective tax rate to income or loss from recurring operations and other taxable items. Our effective tax rate for each of the three and nine months ended September 30, 2003 was approximately 6%. Our effective tax rates for the three and nine months ended September 30, 2004 were approximately 5% and 24%. Our effective tax rates for these periods differed from the federal statutory rate primarily due to the net effects of the benefits received from software development costs, website costs, and software license fees.

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**NOTE 9 - EARNINGS (LOSS) PER COMMON SHARE, (Restated)**

Earnings per common share are computed by dividing net income by the weighted average number of common shares and common stock equivalents outstanding during the year. Common stock equivalents are the net additional number of shares that would be issuable upon the exercise of the outstanding common stock options and warrants, assuming that the Company reinvested the proceeds to purchase additional shares at market value. A total of 2,440,000 and 5,058,200 potentially dilutive securities for the three and nine months ended September 30, 2004 and 2003, respectively, have been excluded from the computation of diluted earnings per share, as their inclusion would be anti-dilutive.

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

<b>Three months ended September 30</b>		
	<b>2004</b>	<b>2003</b>
Net loss	\$ (907,303)	\$ (159,254)
Preferred stock dividends	(4,125)	---
Available to common shareholders	\$ (911,428)	\$ (159,254)
Basic weighted average shares outstanding	<b>46,153,189</b>	21,011,438
Dilutive effect of:		
Stock options	---	---
Convertible notes payable	---	---
Convertible preferred series A	---	---
Convertible preferred series B	---	---
Warrants	---	---
Diluted weighted average shares outstanding	<b>46,153,189</b>	21,011,438
Loss per share:		
Basic	\$ (0.02)	\$ (0.01)
Diluted	\$ (0.02)	\$ (0.01)
<b>Nine months ended September 30</b>		
	<b>2004</b>	<b>2003</b>
Net income (loss)	\$ (1,044,573)	\$ 364,892
Preferred stock dividends	(4,125)	---
Available to common shareholders	\$ (1,048,698)	\$ 364,892
Basic weighted average shares outstanding	<b>30,146,980</b>	20,211,438
Dilutive effect of:		
Stock options	---	---
Convertible notes payable	---	2,000,000
Convertible preferred series A	---	114,000
Convertible preferred series B	---	40,000
Warrants	---	---
Diluted weighted average shares outstanding	<b>30,146,980</b>	22,365,438

Earnings (loss) per share:				
Basic	\$	(0.03)	\$	0.02
Diluted	\$	(0.03)	\$	0.02

See Note 15 - Restatement and Reclassification.

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**NOTE 10 - STOCK-BASED COMPENSATION, (Restated)**

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

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Net income (loss), as reported	\$ (907,303)	\$ (159,254)	\$ (1,044,573)	\$ 364,892
Pro Forma compensation charge under SFAS 123	---	(14,323)	(26,519)	(47,219)
Pro Forma net income (loss)	\$ (907,303)	\$ (173,577)	\$ (1,071,092)	\$ 317,673
Earnings (loss) per share:				
Basic - as reported	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ 0.02
Basic - pro forma	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ 0.02
Diluted - as reported	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ 0.02
Diluted - pro forma	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ 0.01

See Note 15 - Restatement and Reclassification.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES, (Restated)**

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 our financial statements taken as a whole.

Our employment agreements with our management team each contain a provision for an annual bonus equal to 1% of our net income (3% total). We accrue this bonus on a quarterly basis. Our management team consists of our Chief Executive Officer (with a base annual salary of \$150,000), our Chief Financial Officer (with a base annual salary of \$110,000), and our Chief Technology Officer (with a base annual salary of \$150,000). In addition to the bonus provisions and annual base salary, each employment agreement provides for payment of all accrued base salaries (\$6,790 included in other current liabilities at September 30, 2004), bonuses (\$28,055 included in other current liabilities at September 30, 2004), and any vested deferred compensation (\$31,314 included in other current liabilities at September 30, 2004) for termination by reason of disability. The agreements also provide for severance compensation equal to the then base salary until the later of (i) the expiration of the term of the agreement as set forth therein or (ii) one year, when the termination is other than for cause (including termination by reason of disability). There is no severance compensation in the event of voluntary termination or termination for cause.



In March 2004, the Company finalized the settlement with The Zondervan Corporation and TLC. The Settlement Agreement was effective October 20, 2003 and called 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, and installments of \$100,000, plus interest, due April 30, 2004 and July 30, 2004, all of which have been paid. This agreement was secured by all rights, title and interest in QuickVerse<sup>®</sup> together with all proceeds produced by QuickVerse<sup>®</sup>. In addition, according to the agreement, the term of the software license agreement with Parsons Technology, Inc., a subsidiary of TLC, has been extended indefinitely and provides the Company with the exclusive worldwide right to market, sell, and continue to develop those titles it covers.

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The Company was in arrears with the Internal Revenue Service for back payroll taxes and had been paying the payroll taxes in monthly installments previously approved by the Internal Revenue Service. In July of 2004, the Company paid all back payroll taxes that were due to the Internal Revenue Service and remain current with all payroll tax deposits and filings.

#### **NOTE 12 - 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 13 - 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 create an uncertainty about the Company's ability to continue as a going concern. Management of the Company has secured investment capital, reduced liabilities, and is pursuing further development of the Company's flagship software titles. The ability of the Company to continue as a going concern is dependent on the success of the Company's flagship software titles and the successful development of new titles and platforms. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### **NOTE 14 - SUBSEQUENT EVENTS**

In October 2004, the Company filed Schedule 14C with the Securities and Exchange Commission to increase the number of our authorized common shares from 50,000,000 to 120,000,000.

In November 2004, the holders of the promissory notes exercised their option to convert their notes into 2,000,000 restricted common shares.

#### **NOTE 15 - RESTATEMENT AND RECLASSIFICATION**

We have restated our financial statements for the three and nine months ended September 30, 2004 and 2003 to reflect issues identified during a regulatory review of our financial statements associated with a registration statement filing on Form SB-2 that is pending effectiveness as of the date of this 10-QSB/A filing. Management and the board of directors concluded these restatements were necessary to reflect the changes described below.

Revisions affecting the condensed consolidated statements of operations:

- During the quarter ended June 30, 2002, we reached a tentative settlement agreement in our arbitration with TLC. The tentative settlement agreement forgave the final, unpaid installment due on the 1999 Software License Agreement ("SLA") and extended the SLA term from 10 years to 50 years. We originally recorded the final, unpaid installment (\$1,051,785) of the SLA as an offset against the recorded historical cost of the SLA and recalculated the amortization based on this reduced amount and the extension of the useful life to 50 years. 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 has since concluded that too much time had passed between the date of the 1999 license (June 1999) and the date of the tentative settlement agreement (May 2002) for such an offset to be appropriate. Therefore, we recognized the extinguishment of the liability owed to TLC as income in the consolidated statement

of operations for the year ended December 31, 2002. This adjustment reduced the retained deficit at September 30, 2003 and 2004 from that originally reported and had no effect on the condensed consolidated statements of operations or consolidated statements of cash flows for the periods then ended.

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- During the quarter ended December 31, 2003, we reached a final settlement agreement in our dispute with Zondervan and TLC. This final settlement extended the life of the SLA, and the trademarks included therein, indefinitely. We originally reassessed the useful life of the SLA to be indefinite, based on the guidelines provided by paragraphs 11 and 53 of SFAS No. 142, *Goodwill and Other Intangible Assets*. Our management has since concluded a 10 year life is appropriate based on our going concern opinion for 2002 and 2003. Therefore, we restored the estimated economic useful life to the original 10 years and have recalculated annual amortization accordingly. This adjustment increased the retained deficit at September 30, 2003 (for the prior years' amortization and related income tax effects) and decreased net income for the three and nine months ended September 30, 2004. There was no net effect on the consolidated statements of cash flows for the nine months ended September 30, 2003 and 2004, respectively.
- During the three months ended June 30, 2004, we had previously, and erroneously, included rebates, and adjustments to rebates, as part of our sales and marketing expenses. The more appropriate presentation should have been, and is now, as an adjustment to revenue, as in accordance with EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*. During the three months ended June 30, 2004, we recorded an adjustment to our rebates reserve in the amount of \$266,301 and an adjustment to rebates payable in the amount of \$12,599. Upon reassessment of the adequacy of our reserve at December 31, 2003, we have allocated \$124,262 of the total adjustment to fiscal year 2003 with \$14,793 allocated to the three months ended June 30, 2003, \$50,297 allocated to the three months ended September 30, 2003 and \$59,172 allocated to the three months ended December 31, 2003 and \$142,039 to fiscal year 2004 with \$66,575 allocated to the three months ended March 31, 2004 and \$75,464 allocated to the three months ended June 30, 2004. These adjustments resulted from a change in our internal control over financial reporting. Previously, when making our assessment of the adequacy of our reserve for rebates, we did not take into consideration the amount and number of outstanding checks, issued checks that were returned as undeliverable, or our ability to meet our recorded financial obligation. We changed our internal control procedures to include review of each of these factors in our assessment of the adequacy of the reserve for rebates. We have restated the condensed consolidated balance sheets as of September 30, 2004 and 2003 and the condensed consolidated statements of operations and consolidated statements of cash flows for the three and nine months then ended.
  - We erroneously treated the warrants issued to a New York based private investment partnership in connection with a private placement as equity. The correct presentation is as a liability adjusted for changes in fair value, at each balance sheet date, through the consolidated statements of operations, as provided by EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. We reclassified the initial fair value of the warrants (\$4,375,000 at July 19, 2004) as a current liability (\$3,062,500 at September 30, 2004) and have included the net change in fair value through September 30, 2004 (\$1,385,422) in other expenses on the consolidated statements of operations.

Revisions resulting in reclassifications or clarification with no net effect on the condensed consolidated statements of operations:

- During the year ended December 31, 2003, we made the decision to no longer provide support for certain of our products and destroyed all remaining inventory of those products. We originally recorded this as a non-recurring item in the "Other income (expense)" section of the consolidated statements of operations. We revised the condensed consolidated statements of operations for the three and nine months ended September 30, 2003 to reflect this obsolete inventory in cost of sales.
- During the year ended December 31, 2003, we reached a final settlement agreement in our dispute with Zondervan and TLC. As part of the settlement process, we conducted an internal audit (which was verified by an independent auditor provided by TLC) of the accrued royalties owed Zondervan. The audit provided that accrued royalties were overstated due to the 2001 bad debt recognition of the trade accounts receivable balance of TLC. The amount

overstated had remained part of the dispute with Zondervan and remained in our liabilities until the final settlement was reached. We originally reported the adjustment as a non-recurring item in the other income (expense) section of the consolidated statements of operations. The revised condensed consolidated statements of operations for the three and nine months ended September 30, 2003 reflects the adjustment as other income in the other income (expense) section.

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- During the year ended December 31, 2003, we reclassified loan proceeds, and the corresponding accrued interest payable, that were previously recorded as an unsecured note payable. The proceeds were initially recorded as an unsecured note payable based on an oral understanding with an employee of a third-party consultant in 1999. We had historically accrued interest on the outstanding balance at 9%, the rate deemed reasonable by management at the time of the oral agreement. We continued to accrue interest on the proceeds until we made the determination to reclassify the proceeds and accumulated accrued interest. The determination to reclassify the obligation, and related accrued interest, was made on the basis of the combined facts that (i) the obligation exists, if at all, solely pursuant to an oral loan agreement made in 1999 in the State of North Carolina with a representative of the party to whom the obligation was believed to have been owed, (ii) no party has ever made any demand for repayment thereof despite the fact that no payments have ever been made on the obligation, (iii) the party believed to be owed the obligation, upon inquiry, claims no record of any such obligation, and (iv) the State of North Carolina Statute of Limitations applicable to oral agreements, believed to govern the continued enforceability of the obligation, had expired. We originally reported the reclassification as a non-recurring item in the other income (expense) section of the consolidated statements of operations. The revised condensed consolidated statements of operations for the three and nine months ended September 30, 2003 reflects the adjustment as other income in the other income (expense) section.
- During the three months ended March 31, 2004, and as a direct result of the settlement with Zondervan and TLC, we wrote-off inventory containing content from Zondervan. Though not technologically obsolete, we were unable to sell the inventory under the terms of the settlement. We originally recorded this as a non-recurring item in the other income (expense) section of the condensed consolidated statements of operations. The revised condensed consolidated statements of operations for the three and nine months ended September 30, 2004 reflects this inventory adjustment in cost of sales.
- During the three months ended September 30, 2004, we settled an agreement with Swartz Private Equity for early termination. In connection therewith, we issued 295,692 shares of common stock valued at \$0.10 per share and paid a cash lump sum of \$125,000. We originally recorded this transaction as expenses incurred in a withdrawn public offering and reflected it as a non-recurring item in the condensed consolidated statements of operations. The revised condensed consolidated statements of operations for the three and nine months ended September 30, 2004 reflects this transaction as other expenses in the other income (expense) section.
- During the three months ended September 30, 2004, we negotiated settlement with several of our creditors. The debt extinguishment was originally reported as an extraordinary item, net of income tax effects, on the condensed consolidated statements of operations. The revised condensed consolidated statements of operations for the three and nine months ended September 30, 2004 includes this transaction in other income.
- We had previously and erroneously treated the 2004 rebates reserve adjustment as an expense recovery in operating expenses. The more appropriate presentation should have been, and is now, an adjustment 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)*.

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

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

	<b>As Originally Reported</b>	<b>As Restated</b>	<b>Change</b>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 589,753	\$ 539,399	\$ (50,354) (a)
Accounts receivable, trade	296,850	296,850	---
Inventory	162,800	162,800	---
Other current assets	139,495	139,495	---
Total current assets	1,188,898	1,138,544	(50,354)
Property and equipment, net	61,518	61,518	---
Software license, net	2,513,158	2,391,660	(121,498) (b)
Software development, net	602,276	602,276	---
Restricted cash	---	50,354	50,354 (a)
Other assets	86,301	86,301	---
Total assets	\$ 4,452,151	\$ 4,330,653	\$ (121,498)
<b>Liabilities and stockholders' equity</b>			
<b>Current liabilities:</b>			
Notes payable	\$ 240,000	\$ 240,000	\$ ---
Accrued royalties	236,949	236,949	---
Accounts payable, trade	410,179	410,179	---
Derivatives	---	3,062,500	3,062,500 (e)
Other current liabilities	445,776	445,776	---
Total current liabilities	1,332,904	4,395,404	3,062,500
Non-current deferred taxes	1,271,643	808,083	(463,560) (c)
<b>Commitments and contingencies</b>			
<b>Stockholders' equity:</b>			
Common stock	46,153	46,153	---
Paid-in capital	8,989,778	7,260,469	(1,729,309) (d)
Retained (deficit)	(7,188,327)	(8,179,456)	(991,129)
Total stockholders' equity	1,847,604	(872,834)	(2,720,438)
Total liabilities and stockholders' equity	\$ 4,452,151	\$ 4,330,653	\$ (121,498)

(a) Reclassification of restricted cash with merchant banker as non-current asset.

(b) Net change from reclassification of forgiveness of final installment and additional amortization from returning the estimated economic useful life from indefinite to 10

years.

(c) Decrease from recalculation of deferred income taxes resulting from changes to the software license agreement.

(d) Correction of error recording preferred stock dividend converted into common stock.

(e) Fair value of common stock warrants reclassified as derivatives under EITF 00-19.

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

	As Originally Reported	As Restated	Change
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 88,265	\$ 38,265	\$ (50,000) (a)
Accounts receivable, trade	141,173	141,173	---
Inventory	252,700	252,700	---
Other current assets	42,464	42,464	---
Total current assets	524,602	474,602	(50,000)
Property and equipment, net	68,507	68,507	---
Software license, net	2,516,147	2,895,168	379,021 (b)
Software development, net	474,385	474,385	---
Restricted cash	---	50,000	50,000 (a)
Other assets	58,610	58,610	---
Total assets	\$ 3,642,251	\$ 4,021,272	\$ 379,021
<b>Liabilities and stockholders' equity</b>			
Current liabilities:			
Notes payable	\$ 749,999	\$ 749,999	\$ ---
Accrued royalties	1,616,556	1,616,556	---
Accounts payable, trade	681,594	582,648	(98,946) (c)
Other current liabilities	1,634,420	1,569,330	(65,090) (e)
Total current liabilities	4,682,569	4,518,533	(164,036)
Long-term note payable	92,537	92,537	---
Non-current deferred taxes	1,058,794	773,765	(285,029) (d)
Commitments and contingencies			
Stockholders' equity:			
Preferred stock	51	51	---
Common stock	21,011	21,011	---
Paid-in capital	7,080,629	7,080,629	---
Retained (deficit)	(9,293,340)	(8,465,254)	828,086
Total stockholders' equity	(2,191,649)	(1,363,563)	828,086
Total liabilities and stockholders' equity	\$ 3,642,251	\$ 4,021,272	\$ 379,021

(a) Reclassification of restricted cash with merchant banker as non-current asset.

(b) Net change from reclassification of forgiveness of final installment and additional amortization from returning the estimated economic useful life from indefinite to 10 years.

(c) Decrease from restatement of 2000 error correction discovered in 2004.

(d) Decrease from recalculation of deferred income taxes resulting from changes to the software license agreement.

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

**Findex.com, Inc.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Nine Months Ended September 30, 2004**  
**(Unaudited)**

	As Originally Reported	As Restated	Change	
Revenues, net of reserves and allowances	\$ 3,526,492	\$ 3,664,060	\$ 137,568	(a)
Cost of sales	999,770	1,137,721	137,951	(b)
Gross profit	2,526,722	2,526,339	(383)	
Operating expenses:				
Sales and marketing	791,249	798,410	7,161	(c)
General and administrative	1,801,483	1,684,295	(117,188)	(d)
Nonrecurring items	186,965	---	(186,965)	(e)
Rebate reserve adjustment	(266,301)	---	266,301	(f)
Bad debt provision	11,066	11,066	---	
Depreciation and amortization	38,615	416,246	377,631	(g)
Total operating expenses	2,563,077	2,910,017	346,940	
Loss from operations	(36,355)	(383,678)	(347,323)	
Other income	9,135	1,009,798	1,000,663	(h)
Loss on valuation adjustment of derivatives	---	(1,385,422)	(1,385,422)	(k)
Other expenses, net	(38,285)	(192,854)	(154,569)	(l)
Loss before income taxes	(65,505)	(952,156)	(886,651)	
Provision for income taxes	15,700	(92,417)	(108,117)	(i)
Loss before extraordinary item	(49,805)	(1,044,573)	(994,768)	
Extraordinary item	763,162	---	(763,162)	(h)
Net income (loss)	\$ 713,357	\$ (1,044,573)	\$ (1,757,930)	
Net earnings (loss) per share:				
Basic	\$ 0.03	\$ (0.03)	\$ (0.06)	
Diluted	\$ 0.02	\$ (0.03)	\$ (0.05)	
Weighted average shares outstanding:				
Basic	30,146,980	30,146,980	---	
Diluted	32,880,085	30,146,980	(2,733,105)	(j)

(a) Increase from reclassification of rebate reserve adjustment from Sales and marketing expenses and reclassify cost of estimated returns to Cost of sales.

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

marketing expenses, reclassification of Inventory write down expense from operating expenses, and reclassification of cost of estimated returns from net revenues.

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

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

(e) Decrease from reclassification of inventory write-down to Cost of sales.

(f) Increase from reclassification as an adjustment to revenue.

(g) Increase from effects of additional amortization of the software license agreement.

(h) Reclassification of debt forgiveness as other income from net extraordinary item.

(i) Income tax effects of additional software license amortization.

(j) Decrease due to correction of error in calculation of potentially dilutive common stock warrants.

(k) Fair value adjustment on common stock warrants treated as derivatives under EITF 00-19.

(l) Reclassification of costs of withdrawn public offering from General and administrative.

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

	As Originally Reported	As Restated	Change	
Revenues, net of reserves and allowances	\$ 1,027,277	\$ 1,010,207	\$ (17,070)	(a)
Cost of sales	368,979	397,652	28,673	(b)
Gross profit	658,298	612,555	(45,743)	
Operating expenses:				
Sales and marketing	294,200	287,909	(6,291)	(c)
General and administrative	552,177	512,721	(39,456)	(d)
Nonrecurring items	154,569	---	(154,569)	(e)
Bad debt provision	8,566	8,566	---	
Depreciation and amortization	15,729	141,607	125,878	(f)
Total operating expenses	1,025,241	950,803	(74,438)	
Loss from operations	(366,943)	(338,248)	28,695	
Other income	8,019	1,008,682	1,000,663	(g)
Loss on valuation adjustment of derivatives	---	(1,385,422)	(1,385,422)	(j)
Other expenses, net	(6,651)	(161,220)	(154,569)	(e)
Loss before income taxes	(365,575)	(876,208)	(510,633)	
Provision for income taxes	18,005	(31,095)	(49,100)	(h)
Loss before extraordinary item	(347,570)	(907,303)	(559,733)	
Extraordinary item	763,162	---	(763,162)	(g)
Net income (loss)	\$ 415,592	\$ (907,303)	\$ (1,322,895)	
Net earnings (loss) per share:				
Basic	\$ 0.01	\$ (0.02)	\$ (0.03)	
Diluted	\$ 0.01	\$ (0.02)	\$ (0.03)	
Weighted average shares outstanding:				
Basic	46,153,189	46,153,189	---	
Diluted	48,886,294	46,153,189	(2,733,105)	(i)

(a) Increase from reclassification of rebate reserve adjustment from Sales and marketing expenses and reclassification cost of estimated returns to Cost of sales.

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

- (c) Decrease from reclassification of fulfillment costs to Cost of sales.
- (d) Decrease from reclassification of non-capitalized technical support wages to Cost of sales.
- (e) Reclassification of expenses incurred in a withdrawn public offering to Other expenses, net.
- (f) Increase from effects of additional amortization of the software license agreement.
- (g) Reclassification of debt forgiveness as other income from net extraordinary item.
- (h) Income tax effects of additional software license amortization.
- (i) Decrease due to correction of error in calculation of potentially dilutive common stock warrants.
- (j) Fair value adjustment on common stock warrants treated as derivatives under EITF 00-19.

**Findex.com, Inc.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Nine Months Ended September 30, 2003**  
**(Unaudited)**

	As Originally Reported	As Restated	Change	
Revenues, net of reserves and allowances	\$ 2,588,820	\$ 2,644,240	\$ 55,420	(a)
Cost of sales	709,772	833,641	123,869	(b)
Gross profit	1,879,048	1,810,599	(68,449)	
Operating expenses:				
Sales and marketing	511,726	521,441	9,715	(c)
General and administrative	1,289,237	1,206,773	(82,464)	(d)
Nonrecurring items	(522,836)	---	522,836	(e)
Bad debt provision	4,893	4,893	---	
Depreciation and amortization	74,659	411,041	336,382	(f)
Total operating expenses	1,357,679	2,144,148	786,469	
Earnings (loss) from operations	521,369	(333,549)	(854,918)	
Other income	3,838	587,464	583,626	(g)
Other expenses, net	(58,871)	(58,871)	---	
Income before income taxes	466,336	195,044	(271,292)	
Provision for income taxes	26,100	169,848	143,748	(h)
Net income	\$ 492,436	\$ 364,892	\$ (127,544)	
Net earnings per share:				
Basic	\$ 0.03	\$ 0.02	\$ (0.01)	
Diluted	\$ 0.03	\$ 0.02	\$ (0.01)	
Weighted average shares outstanding:				
Basic	20,211,438	20,211,438	---	
Diluted	22,345,438	22,365,438	20,000	(i)

(a) Increase from reclassification of rebate reserve adjustment from Sales and marketing expenses and reclassify cost of estimated returns to Cost of sales.

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

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

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

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



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

	As Originally Reported	As Restated	Change	
Revenues, net of reserves and allowances	\$ 756,489	\$ 796,765	\$ 40,276	(a)
Cost of sales	223,133	272,498	49,365	(b)
Gross profit	533,356	524,267	(9,089)	
Operating expenses:				
Sales and marketing	189,839	186,841	(2,998)	(c)
General and administrative	420,188	392,700	(27,488)	(d)
Nonrecurring items	28,900	---	(28,900)	(e)
Bad debt provision	4,893	4,893	---	
Depreciation and amortization	24,912	137,039	112,127	(f)
Total operating expenses	668,732	721,473	52,741	
Loss from operations	(135,376)	(197,206)	(61,830)	
Other income	2,803	2,803	---	
Other expenses, net	(21,467)	(21,467)	---	
Loss before income taxes	(154,040)	(215,870)	(61,830)	
Provision for income taxes	8,700	56,616	47,916	(g)
Net loss	\$ (145,340)	\$ (159,254)	\$ (13,914)	
Net loss per share:				
Basic	\$ (0.01)	\$ (0.01)	\$ 0.00	
Diluted	\$ (0.01)	\$ (0.01)	\$ 0.00	
Weighted average shares outstanding:				
Basic	21,011,438	21,011,438	---	
Diluted	21,011,438	21,011,438	---	

(a) Increase from reclassification of rebate reserve adjustment from Sales and marketing expenses and reclassify cost of estimated returns to Cost of sales.

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

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

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

(e) Decrease from reclassification of inventory write-down to Cost of sales.

- (f) Increase from additional amortization of software license agreement from returning the economic useful life to 10 years.
- (g) Income tax effects of additional software license amortization.

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**Findex.com, Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2004**  
**(Unaudited)**

	As Originally Reported	As Restated	Change	
Cash flows from operating activities:				
Cash received from customers	\$ 3,607,255	\$ 3,607,255	\$ ---	
Cash paid to suppliers and employees	(4,368,409)	(4,368,409)	---	
Other operating activities, net	(34,235)	(34,235)	---	
Net cash (used) by operating activities	(795,389)	(795,389)	---	
Cash flows from investing activities:				
Acquisition of property and equipment	(25,332)	(25,332)	---	
Software development costs	(415,197)	(415,197)	---	
Website development costs	(31,836)	(31,836)	---	
Deposits refunded	16	50,016	50,000	(a)
Net cash (used) by investing activities	(472,349)	(422,349)	50,000	
Cash flows from financing activities:				
Payments made on line of credit, net	(20,933)	(20,933)	---	
Payments made on long-term notes payable	(202,551)	(202,551)	---	
Proceeds from convertible notes payable	240,000	240,000	---	
Stock offering costs paid	(51,047)	(51,047)	---	
Proceeds from issuance of common stock and warrants	1,750,000	1,750,000	---	
Net cash provided by financing activities	1,715,469	1,715,469	---	
Net increase in cash and cash equivalents	447,731	497,731	50,000	
Cash and cash equivalents, beginning of year	142,022	41,668	(100,354)	(b)
Cash and cash equivalents, end of	\$ 589,753	\$ 539,399	\$ (50,354)	

period

Reconciliation of net income (loss) to cash flows from operating activities:

Net income (loss)	\$ 713,357	\$ (1,044,573)	\$ (1,757,930)	
Adjustments to reconcile net income (loss) to net cash (used) by operating activities:				
Software development costs amortized	397,627	397,627	---	
Provision for bad debts	11,066	11,066	---	
Stock and warrants issued for services	73,700	73,700	---	
Rebate reserve adjustment	(266,301)	---	266,301	(c)
Depreciation and amortization	38,615	416,245	377,630	(d)
Loss on valuation adjustment of derivatives	---	1,385,422	1,385,422	(g)
Extraordinary item	(1,000,662)	---	1,000,662	(e)
Debt forgiveness	---	(1,000,662)	(1,000,662)	(e)
Loss on disposal of property and equipment	141	141	---	
Change in assets and liabilities:				
Decrease in accounts receivable	57,887	57,887	---	
Decrease in inventories	109,800	109,800	---	
(Increase) in refundable income taxes	(2,948)	(2,948)	---	
(Increase) in prepaid expenses	(114,629)	(114,629)	---	
(Decrease) in accrued royalties	(381,677)	(381,677)	---	
(Decrease) in accounts payable	(407,683)	(407,683)	---	
(Decrease) in income taxes payable	(950)	(950)	---	
Increase in deferred taxes	220,316	90,931	(129,385)	(f)
(Decrease) in other liabilities	(243,048)	(385,086)	(142,038)	(c)
Net cash (used) by operating activities	\$ (795,389)	\$ (795,389)	\$ ---	

- (a) Increase from reclassification of restricted cash as other asset.
- (b) Decrease from reclassification of beginning restricted cash as other asset.
- (c) Reclassification of Rebate reserve adjustment as decrease in other liabilities and reallocation to periods ended June 30, 2003, September 30, 2003, December 31, 2003, March 31, 2004, and June 30, 2004.
- (d) Additional software license amortization.
- (e) Reclassify extraordinary item as debt forgiveness.
- (f) Net income tax effects of additional software amortization.
- (g) Fair value adjustment on common stock warrants treated as derivatives under EITF 00-19.

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**Findex.com, Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2003**  
**(Unaudited)**

	As Originally Reported	As Restated	Change
Cash flows from operating activities:			
Cash received from customers	\$ 3,092,147	\$ 3,092,147	\$ ---
Cash paid to suppliers and employees	(2,661,410)	(2,661,410)	---
Other operating activities, net	36,479	36,479	---
Net cash provided by operating activities	467,216	467,216	---
Cash flows from investing activities:			
Acquisition of property and equipment	(8,047)	(8,047)	---
Software development costs	(366,101)	(366,101)	---
Website development costs	(30,373)	(30,373)	---
Deposits made	(500)	(50,500)	(50,000) (a)
Net cash (used) by investing activities	(405,021)	(455,021)	(50,000)
Cash flows from financing activities:			
Proceeds from line of credit, net	24,918	24,918	---
Payments made on long-term notes payable	(37,499)	(37,499)	---
Net cash (used) by financing activities	(12,581)	(12,581)	---
Net increase (decrease) in cash and cash equivalents	49,614	(386)	(50,000)
Cash and cash equivalents, beginning of year	38,651	38,651	---
Cash and cash equivalents, end of period	\$ 88,265	\$ 38,265	\$ (50,000)
Reconciliation of net income to cash flows from operating activities:			
Net income	\$ 492,436	\$ 364,892	\$ (127,544)
Adjustments to reconcile net income to net cash provided by operating activities:			

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Software development costs amortized	172,217	172,217	---	
Provision for bad debts	4,893	4,893	---	
Common stock and warrants issued for services	52,750	52,750	---	
Depreciation and amortization	74,659	411,041	336,382	(b)
Change in assets and liabilities:				
Decrease in accounts receivable	82,175	82,175	---	
Decrease in inventories	164,000	164,000	---	
Decrease in refundable income taxes payable	47,950	47,950	---	
(Increase) in prepaid expenses	(3,716)	(3,716)	---	
(Decrease) in accrued royalties	(514,057)	(514,057)	---	
(Decrease) in accounts payable	(324,916)	(324,916)	---	
(Decrease) in deferred taxes	(26,100)	(169,848)	(143,748)	(c)
Increase in other liabilities	244,925	179,835	(65,090)	(d)
Net cash provided by operating activities	\$ 467,216	\$ 467,216	\$ ---	

(a) Reclassification of restricted cash held by merchant banker as other asset.

(b) Increase from additional software license amortization.

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

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

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

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

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

### GENERAL

Findex.com, Inc. ("Findex" or the "Company", and collectively referred to as "we", "us" or "our", in each case as required by 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:

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

### RESULTS OF OPERATIONS

Our software products 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.



During the nine months ended September 30, 2003, the Company recorded approximately \$584,000 as Other Income as a result of accrued royalties being overstated in connection with the 2001 bad debt recognition from the trade accounts receivable balance with TLC. For the nine months ended September 30, 2003 and 2004 the Company wrote down a reserve for rebates payable due to a change in accounting estimate of approximately \$65,000 and \$142,000, respectively, which is included as an adjustment to revenue in accordance with EITF Issue No. 01-09. Furthermore, during the nine months ended September 30, 2003 and 2004, we wrote down distinctly different categories of obsolete inventory approximating \$61,000 and \$32,000 for these periods, respectively. The inventory write downs are included in cost of sales. During the quarter ended September 30, 2004 the Company recognized approximately a \$1,000,000 gain from extinguishment of debt which is classified as Other Income. The extinguishment of debt is a direct result from settling with various vendors and content providers for lump-sum payments at a reduced amount of balances owed. Lastly, the Company recognized a loss of approximately \$1,385,000 for the nine months ended September 30, 2004 related to the fair value adjustment of derivatives in other expenses. Warrants issued with shares of common stock in a private placement are considered derivative liabilities. The derivative liability associated with the warrants has been adjusted to fair value at each balance sheet date and accordingly reassessed at each such date to determine whether the warrants should be classified (or reclassified, as appropriate) as a liability or as equity. See "Derivatives" below. Due mainly to the items stated above, our net loss increased approximately \$1,066,000 for the three months ended September 30 from a net loss of approximately \$159,000 for 2003 to a net loss of approximately \$907,000 for 2004 and increased approximately \$1,410,000 for the nine months ended September 30 from a net income of approximately \$365,000 for 2003 to a net loss of approximately \$1,045,000 for 2004.

Overall, interest expense for the three and nine months ended September 30, 2004 decreased by approximately \$14,000 and \$30,000 respectively compared to 2003. This is due to the Company reducing its trade payables and meeting the scheduled terms. Furthermore, the note liabilities interest was reduced due to the reclassification of the note payable in the fourth quarter of 2003. Amortization expense related to the software license remained steady for the three and nine months ended September 30, 2004 compared to 2003. Amortization expense related to software development costs increased approximately \$75,000 and \$225,000 for the three and nine months ended September 30, 2004 compared to 2003. This is a direct result from QuickVerse® 8.0 shipping in late December 2003 and Membership Plus® 8.0 shipping in January 2004.

## Revenues

We 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.

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Gross revenues increased approximately \$269,000 for the three months ended September 30 from approximately \$856,000 for 2003 to approximately \$1,125,000 for 2004 and increased approximately \$1,026,000 for the nine months ended September 30 from approximately \$2,872,000 for 2003 to approximately \$3,898,000 for 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. The Company also released an enhanced version of our QuickVerse® PDA in late third quarter of 2004. Although there were new product releases during the first three quarters of 2003, the retail value of the products were significantly lower than the QuickVerse® and Membership Plus® titles and ranged from \$19.95 to \$39.95.

Sales returns and allowances remained steady at approximately \$115,000 for the three months ended September 30, 2003 and 2004 and increased approximately \$106,000 for the nine months ended September 30 from approximately \$331,000 for 2003 to approximately \$437,000 for 2004 and decreased as a percentage of gross sales from approximately 13.5% and 11.5% for the three and nine months ended September 30, 2003 to approximately 10.2% and 11.2% for the three and nine months ended September 30, 2004, respectively. The decrease for sales returns and allowances as a percentage for the three months ended September 30 is a direct result of selling some product to be liquidated after the new version of product line is released, and the liquidated product is not subject to return. Finally, for the nine months ended September 30, 2003 and 2004 the Company wrote down a reserve for rebates payable due to a change in accounting estimate of approximately \$65,000 and \$142,000, respectively, which is included as an adjustment to revenue in accordance with EITF Issue No. 01-09.

## **COST OF SALES**

Cost of sales consists primarily of royalties to third party providers of intellectual property and the direct costs and manufacturing overhead required to reproduce, package, fulfill and ship the software products. Direct costs and manufacturing overhead also include the amortized software development and the non-capitalized technical support wages. The direct costs and manufacturing overhead decreased from approximately 26.4% of gross revenues for the three months ended September 30, 2003 to approximately 21.3% of gross revenues for the three months ended September 30, 2004 and remained steady at approximately 22% of gross revenues for the nine months ended September 30, 2003 and 2004. The decrease for the three months reflects our ability to purchase more materials in larger volumes at a reduced price per unit as well as our ability to outsource to several new vendors with competitive prices. Furthermore, the nine months ended September 30, 2003 and 2004 include the write down of two distinct categories of obsolete inventory of approximately \$61,000 and \$32,000, respectively. The 2004 inventory write down was a direct result of settlement negotiations with Zondervan. However, fulfillment costs from a third-party warehouse increased approximately \$24,000 during the nine months ended September 30 as we had an increased amount of retail sales during the first quarter of 2004 due to the enhanced releases of QuickVerse® and Membership Plus®. The overall steady 22% of gross revenues for the nine months results from the increase in the amortization of software development costs while the direct costs continue to decrease. The amortization recognized during the three and nine months ended September 30, 2003 resulted from several new software releases in 2003 and the continued amortization of those products released in 2002. Furthermore, the amortization increase for the three and nine months ended September 30, 2004 corresponds with the December 2003 release of QuickVerse® 8.0 and the January 2004 release of Membership Plus® 8.0. The direct costs and manufacturing overhead percentage is expected to continue at the 2004 levels as working capital remains more consistent and as more development projects are implemented.

Royalties to third party providers of intellectual property increased approximately \$111,000 and \$74,000 for the three and nine months ended September 30 from approximately \$47,000 and \$199,000 for 2003 to approximately \$158,000 and \$273,000 for 2004, respectively. The royalty rate as a percentage of gross revenues increased from approximately 6% of gross revenues for the three months ended September 30, 2003 to approximately 14% for the three months ended September 30, 2004, whereas the royalty rate as a percentage of gross revenues for the nine months ended September 30, 2003 and 2004 remained at 7% of gross revenues. The increase of royalties for the three months

reflects a steady increase of retail sales for the year of 2004. During the same time period in 2003, our sales were primarily focused on upgrade sales and pre-booking orders for the QuickVerse® 8.0 release in late December 2003. Furthermore, during the third quarter of 2004 we sold some product to a liquidator at a reduced price, which increased the effective royalty rate.

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Software development costs are expensed as incurred until technological feasibility has been established, at which time development costs are capitalized until the software title is available for general release to customers. Capitalized costs are amortized on a product-by-product basis using the greater of straight-line amortization over the estimated life of the product or on the ratio of current revenues from the product to the total projected revenue over the life of the product. Generally, we consider technological feasibility to have been established with the release of a beta version for testing. Software development costs are summarized in the table below. The increase in capitalization from 2003 to 2004 reflects that QuickVerse® 8.0, and other projects, were nearing the end of their development during 2003 while several new projects including an upgraded version of QuickVerse, Membership Plus, and QuickVerse PDA were being developed during 2004. The increase in amortization from 2003 to 2004 reflects the release of QuickVerse® 8.0 and Membership Plus® 8.0 during the 4th quarter of 2003 and the 1st quarter of 2004.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2004	2003	2004
Beginning balance	\$ 385,746	\$ 504,497	\$ 280,502	\$ 584,706
Capitalized	152,998	237,148	366,101	415,196
Amortized (cost of sales)	64,358	139,369	172,217	397,626
Ending balance	\$ 474,386	\$ 602,276	\$ 474,386	\$ 602,276
Research and development expense (General and administrative)	\$ 18,500	\$ 532	\$ 116,294	\$ 44,228

## SALES, GENERAL AND ADMINISTRATIVE

Sales expenses increased approximately \$101,000 and \$277,000 for the three and nine months ended September 30 from approximately \$187,000 and \$521,000 for 2003 to approximately \$288,000 and \$798,000 for 2004. Included in sales expenses, commissions to a third-party telemarketing firm increased approximately \$219,000 during the nine months ended September 30 as our sales focus to the direct consumer increased along with the number of new and enhanced product releases during late 2003 and early 2004; Advertising costs also increased approximately \$32,000 during the nine months ended September 30 with the new and enhanced product releases earlier in the year and more focus on internet advertisements to target the direct consumer; 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 direct production costs (including labor directly associated with the development projects), indirect costs (including allocated fringe benefits, payroll taxes, facilities costs and management supervision), and other direct costs (including costs of outside consultants, purchased software to be included in the software product being developed, travel expenses, material and supplies, and other direct costs). Software development costs expensed as research and development are listed in the table above. The decrease in 2004 reflects the earlier stages of new development projects as well as the shortened time period for the 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 \$252,000 from approximately \$917,000 for the nine months ended September 30, 2003 to approximately \$1,169,000 for the nine months ended September 30, 2004. This increase is primarily from the addition of staff members and the associated health care costs. The Company also recognized approximately \$14,000 of expense related to 635,000 restricted common shares issued to employees and approximately \$36,000 in expense for upper management year-end bonus accrual. Furthermore, the capitalization of direct and indirect labor and related overhead charges as software development costs (see "Cost of Sales" above) decreased by approximately \$73,000 from approximately \$150,000 for the nine months ended September 30, 2003 to

approximately \$77,000 for the nine months ended September 30, 2004. This decrease is due to the shortened development time period for the new development projects that began during the year 2004. It is anticipated that personnel costs will increase in future periods as operating capital is available to fund full staffing of our product development team and expansion of the technical support and direct marketing staff. In addition, interest and penalty fees related to back payroll taxes increased approximately \$95,000 for the nine months ended September 30, 2004.

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Direct legal costs increased approximately \$42,000 for the nine months ended September 30, 2004 as the disputes with TLC and Zondervan were finalized in March 2004. However, approximately \$44,000 of legal costs were related to the stock offering costs incurred during the three months ended September 30, 2004. Rent expense increased approximately \$13,000 as we opened a new product development facility located in Naperville, IL. Travel costs increased approximately \$14,000 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 \$52,000 from an increase in technical support and customer service calls due to the two new major product releases in late December 2003 and early 2004. Corporate service fees increased approximately \$61,000 for the nine months ended September 30, 2004. These fees are related to the recent hire of an outside consultant, the expense for an issuance of a warrant to purchase 600,000 common shares allocated over the term of the consulting contract, and the expense for a previous issuance of a warrant to purchase 250,000 common shares. Bad debt expense increased approximately \$6,000 during 2004 due to the increased amount of outstanding accounts receivable.

### **Derivatives**

In November 2004, we issued two warrants to purchase an aggregate of 21,875,000 shares of our common stock in connection with a certain Stock Purchase Agreement completed with Barron Partners, LP, on July 19, 2004. The first warrant entitles the holder to purchase up to 10,937,500 shares of our common stock at a price of \$0.18 per share, and the second warrant entitles the holder to purchase up to 10,937,500 additional shares of our common stock at a price of \$0.60 per share. Each warrant is subject to standard adjustment provisions and each provides for settlement in registered shares of our common stock and may, at the option of the holder, be settled in a cashless, net-share settlement. These warrants have been accounted for as a liability according to the guidance of EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. In accordance with the accounting mandate, the derivative liability associated with these warrants has been and, until our registration statement on Form SB-2 originally filed on November 22, 2004 is declared effective, shall continue to be adjusted to fair value at each balance sheet date and accordingly reassessed at each such date to determine whether the warrants should be classified (or reclassified, as appropriate) as a liability or as equity. The fair value of each warrant was initially assessed at \$2,187,500 (\$4,375,000 total) using the Black-Scholes valuation method. At September 30, 2004 the fair value of the derivative liability was approximately \$3,063,000 and a fair value adjustment of approximately \$1,385,000 has been included in other expenses for the nine months then ended.

### **Amortization**

Amortization expense increased approximately \$9,000 from approximately \$378,000 for the nine months ended September 30, 2003 to approximately \$387,000 for the nine months ended September 30, 2004. The software license acquired from TLC in July of 1999 is amortized over a 10 year useful life. Amortization expense reflects the continual amortization of the software license. Furthermore, amortization expense for 2004 reflects the launch of our new website during the second quarter.

### **INCOME TAX BENEFITS**

Our effective tax rate differs from the statutory federal rate due to differences between income and expense recognition prescribed by the Internal Revenue Code and Generally Accepted Accounting Principles. We utilize different methods and useful lives for depreciating property and equipment. Changes in estimates (reserves) are recognized as an expense for financial reporting but are not deductible for income tax purposes. Software development costs are capitalized and amortized for financial reporting purposes and deducted as research and development costs 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. Generally accepted accounting principles require that our valuation allowance completely offset our deferred tax assets because of the "Going Concern" opinion given by our auditors on our 2003 audited financial statements. If the "Going Concern" were removed, we would evaluate the amount of deferred tax asset that would be realized and adjust the valuation allowance accordingly. This potential adjustment may result in a net increase to our deferred tax assets and recognition of additional deferred income tax benefits. 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). During fiscal year 2004, 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**

As of September 30, 2004, Findex had approximately \$1,139,000 in current assets, \$4,395,000 in current liabilities and a retained deficit of approximately \$8,179,000. This continues to create an uncertainty about our ability to continue as a going concern. We had a net loss of approximately \$907,000 and \$1,045,000 for the three and nine months ended September 30, 2004.

Net cash provided by operating activities was approximately \$467,000 and used by operating activities was approximately \$795,000 for the nine months ended September 30, 2003 and 2004, respectively. Cash provided by operating activities is not currently adequate to meet our current software development and debt service needs.

Net cash used in investing activities was approximately \$455,000 and \$422,000 for the nine months ended September 30, 2003 and 2004, respectively. The decrease in cash used for investing activities results from the refund received on our restricted cash held by our merchant banker. However, capitalizing costs associated with software development, costs to upgrade our website to expand our e-commerce capability, and equipment acquisitions all increased for the nine months ended September 30, 2004. Software development activities and equipment acquisitions will continue on an ongoing basis while costs associated with upgrading our website ceased during May 2004 with the launching of our new site.

Net cash used by financing activities was approximately \$13,000 and provided by financing activities was approximately \$1,715,000 for the nine months ended September 30, 2003 and 2004, respectively. Cash used by financing activities reflects final settlement on our accounts receivable line of credit, payments made on debt obligations, and stock offering costs associated with the Barron Partners, LP equity financing. Cash provided by financing activities reflects proceeds from issuance of stock for Barron Partners, LP and convertible debentures.

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 nine months ended September 30, 2004, we transferred accounts receivable totaling \$300,965 to a lender for cash advances of \$179,151. 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 September 30, 2004, the balance of receivables transferred and included in trade receivables was \$0. The remaining secured borrowing balance included in accrued expenses was \$0. On July 20, 2004, we terminated the Accounts Receivable Financing Agreement with AFC.

On July 19, 2004 we completed an equity financing in the amount of \$1,750,000 through a private placement with Barron Partners, LP. Under the terms of the agreement, Barron Partners purchased 21,875,000 restricted shares of common stock at a price of \$0.08 per share. In addition, according to the terms of the agreement, Barron Partners received two warrants to purchase common stock. The first warrant entitles Barron Partners to purchase up to 10,937,500 shares of common stock at a price of \$0.18 per share and the second warrant entitles Barron Partners to purchase up to 10,937,500 additional shares of common stock at a price of \$0.60 per share; each warrant is subject to standard adjustment provisions. These warrants have been accounted for as a liability according to the guidance of EITF 00-19. In accordance with the accounting mandate, the derivative liability associated with these warrants has been and, until our registration statement on Form SB-2 originally filed on November 22, 2004 is declared effective, shall continue to be adjusted to fair value at each balance sheet date and accordingly reassessed at each such date to determine whether the warrants should be classified (or reclassified, as appropriate) as a liability or as equity. The fair value of each warrant was initially assessed at \$2,187,500 (\$4,375,000 total) using the Black-Scholes valuation method. At September 30, 2004 the fair value of the derivative liability was approximately \$3,063,000 and a fair value adjustment of approximately \$1,385,000 has been included in other expenses for the nine months then ended.

Although there can be no assurance, we believe that through this combination of capital and revenues generated from direct-to-consumer sales, we will have sufficient sources of capital to meet our operating needs. However, any substantial delays in receipt of or 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.

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

In July 2004, the Company made the final payment to The Zondervan Corporation for \$100,000 plus 5% simple interest. This payment completes all of the Company's obligations that were previously outlined in the settlement with The Zondervan Corporation and TLC dated October 2003 (see Note 11 - Commitments and Contingencies). In addition, according to the settlement agreement, the term of the software license agreement with Parsons Technology, Inc., a subsidiary of TLC, has been extended indefinitely, and provides the Company with the exclusive worldwide right to market, sell, and continue to develop those titles it covers.

**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: December 21, 2005	By/s/ Steven Malone Steven Malone President and Chief Executive Officer
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Date: December 21, 2005	By/s/ Kirk R. Rowland Kirk R. Rowland, CPA Chief Financial Officer
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