

Edgar Filing: FINX GROUP INC - Form 10QSB

FINX GROUP INC  
Form 10QSB  
August 19, 2002

U.S. Securities and Exchange Commission  
Washington, DC 20549

Form 10-QSB

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

For The Quarterly Period Ended June 30, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-9940

THE FINX GROUP, INC.  
(Exact name of small business issuer as specified in its charter)  
(Formerly known as Fingermatrix, Inc.)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-2854686  
(IRS Employer  
Identification Number)

249 Saw Mill River Road, Elmsford, NY  
(Address of principal executive offices)

10523  
(Zip Code)

(914) 592-5930  
(Registrant's telephone number, including area code)

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

As of July 31, 2002, there are 49,873,664 shares of the par value \$.01 common stock outstanding.

Page 1

-----  
The Finx Group, Inc. and Subsidiaries  
Unaudited Consolidated Statements of Operations  
-----

Three months ended June 30,	2002	
Sales	\$	480,000
Cost of goods sold		353,000
		-----
Reserve for obsolete and slow moving inventory		127,000
		(117,000)
		-----
Gross profit		10,000

Edgar Filing: FINX GROUP INC - Form 10QSB

Operating expenses	1,366,000	
Compensation expense, executive stock appreciation rights	2,010,000	
-----		
Operating loss	(3,366,000)	(
Other expense	(3,000)	
Interest expense, related parties	(34,000)	
Interest expense and financing fees, other	(18,000)	
-----		
Loss from continuing operations	(3,421,000)	(
Loss from operations of discontinued segments	(185,000)	(
-----		
Net loss	\$ (3,606,000)	\$ (
-----		
Loss per share computation- basic and diluted:		
Loss from continuing operations	(3,421,000)	(
Less dividends on preferred shares	(40,000)	
-----		
Loss from continuing operations attributable to common stockholders	(3,461,000)	(
Loss from operations of discontinued segments	(185,000)	(
-----		
Net loss available to common stockholders	(3,646,000)	(
-----		
Weighted average shares outstanding	48,800,288	16,
-----		
Loss per common share - basic and diluted:		
Loss from continuing operations	(\$0.07)	
Loss from operations of discontinued segments	0.00	
-----		
Net loss	(\$0.07)	

See Notes to Unaudited Consolidated Interim Financial Statements.

Page 2

The Finx Group, Inc. and Subsidiaries  
Unaudited Consolidated Statements of Operations

Six months ended June 30,	2002	
-----		
Sales	\$ 854,000	\$
Cost of goods sold	642,000	
-----		
Reserve for obsolete and slow moving inventory	212,000	(
	(117,000)	
-----		
Gross profit	95,000	
Operating expenses	2,137,000	
Compensation expense, executive stock appreciation rights	2,010,000	
-----		
Operating loss	(4,052,000)	(

Edgar Filing: FINX GROUP INC - Form 10QSB

Other expense	(9,000)	
Interest expense, related parties	(60,000)	
Interest expense and financing fees, other	(41,000)	
-----		
Loss from continuing operations	(4,162,000)	
Loss from operations of discontinued segments	(306,000)	
-----		
Net loss	\$ (4,468,000)	\$ (1,
-----		
Loss per share computation- basic and diluted:		
Loss from continuing operations	(4,162,000)	
Less dividends on preferred shares	(80,000)	
-----		
Loss from continuing operations attributable to common stockholders	(4,242,000)	
Loss from operations of discontinued segments	(306,000)	
-----		
Net loss available to common stockholders	(4,548,000)	(1,
-----		
Weighted average shares outstanding	45,567,487	14,
-----		
Loss per common share - basic and diluted:		
Loss from continuing operations	(\$0.09)	
Loss from operations of discontinued segments	(0.01)	
-----		
Net loss	(\$0.10)	

See Notes to Unaudited Consolidated Interim Financial Statements.

Page 3

The Finx Group, Inc. and Subsidiaries  
Unaudited Consolidated Balance Sheet

As of June 30,

-----		
ASSETS		
CURRENT ASSSETS:		
Cash		\$
Accounts receivable, net		2,
Inventories, net		8
Notes receivable		
-----		
Total current assets		1,1
-----		
Property, Plant and Equipment and Software Costs:		
Property, plant and equipment		2,4
Less accumulated depreciation and amortization		(2,4
-----		
Net property plant and equipment		
-----		

Edgar Filing: FINX GROUP INC - Form 10QSB

Other assets:		
Exclusive license agreement, net (see footnote 8)		1,0
Security deposits		
Patents, net		
-----		
Total other assets		1,0
-----		
TOTAL ASSETS	\$	2,2
-----		

LIABILITIES AND CAPITAL DEFICIENCY

-----		
CURRENT LIABILITIES:		
Accounts payable	\$	2,5
Accrued payroll and payroll taxes, executive officers		1,6
Accrued payroll		4
Accrued payroll taxes		1,4
Notes payable executive officer, including interest		1,4
Notes payable, related parties, including accrued interest		6
Other current liabilities		4
Net current liabilities of discontinued segments		1,0
-----		
Total current liabilities		9,6
-----		
Commitments and contingencies (see footnote 6)		
-----		

CAPITAL DEFICIENCY

-----		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; 1,000 Series A preferred shares issued and outstanding; 20,000 Series B preferred shares issued and outstanding, 60,000 Series C preferred shares issued and outstanding, 40,000 Series D preferred shares issued and outstanding as of June 30, 2002		3,1
Common stock, \$.01 par value; 50,000,000 shares authorized; 49,873,664 shares issued and outstanding as of June 30, 2002 (see footnote 7)		4
Additional paid-in capital, common stock		24,5
Accumulated deficit		(35,5)
-----		
Total capital deficiency		(7,4)
-----		
TOTAL LIABILITIES AND CAPITAL DEFICIENCY	\$	2,2
-----		

See Notes to Unaudited Consolidated Interim Financial Statements.

Edgar Filing: FINX GROUP INC - Form 10QSB

CASH FLOWS - OPERATING ACTIVITIES:

Loss from continuing operations	\$ (4,162,000)	\$ (
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) continuing operations:		
Reserve for obsolete and slow moving inventory	117,000	
Depreciation and amortization	72,000	
Bad debt expense	15,000	
Non cash expense from issuance of stock options and stock purchase warrants	171,000	
Compensation expense, executive stock appreciation rights	2,010,000	
Impairment charge	102,000	
Changes in assets and liabilities:		
Inventories	(166,000)	(
Accounts receivable, net	(192,000)	
Prepaid expense and other current assets	4,000	
Accounts payable	365,000	
Accrued payroll	354,000	
Accrued payroll taxes	244,000	
Accrued interest expense, related parties	204,000	
Other current liabilities	8,000	

Net cash-continuing operations (854,000)

Loss from discontinued operations	(306,000)	(
Adjustments to reconcile loss from operations of discontinued segments to net cash used in discontinued operations:		
Depreciation and amortization	10,000	
Impairment charge	191,000	
Bad debt expense	--	
Net change in other assets and liabilities	33,000	

Net cash-discontinued operations (72,000)

Net cash used in operating activities (926,000)

CASH FLOWS - INVESTING ACTIVITIES:

Other investing activities (43,000)

Net cash provided by (used in) investing activities (43,000)

CASH FLOWS - FINANCING ACTIVITIES:

Loans from related parties 90,000

Repayments on related party loans (20,000)

Proceeds from exercise of stock options 873,000

Proceeds from exercise of stock purchase warrants 1,000

Net advances (payments) under revolving lines of credit (7,000)

Net cash provided by financing activities 937,000

Net increase (decrease) in cash (32,000)

Cash - Beginning of period 35,000

Cash - End of period \$ 3,000 \$

See Notes to Unaudited Consolidated Interim Financial Statements.

-----  
 The Finx Group, Inc. and Subsidiaries  
 Unaudited Consolidated Statements of Cash Flows  
 -----

Six Months ended June 30,	2002	2001
---------------------------	------	------

-----

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

-----

Cash paid during the year for:

Interest	\$	--	\$
Income Taxes		--	

-----

See Notes to Unaudited Consolidated Interim Financial Statements.

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

On February 21, 2002, the Company issued 40,000 shares of its series D preferred stock, convertible into 4,000,000 shares of its common stock and on May 17 2002, the Company issued 60,000 shares of its series C preferred stock, convertible into 6,000,000 shares of its common stock, in consideration for two separate expansions of its exclusive licensing agreement with GIL Security Systems, Inc. Using the Black-Scholes option valuation formula, the convertible preferred stock was valued at \$1,100,000, the amount included in other assets as "Exclusive License Agreement". The asset is being amortized on the straight-line method over the remaining life of the exclusive license which expires September 18, 2009.

On April 8, 2002, the Company entered into a settlement agreement with a creditor in order to settle a \$17,000 obligation. On April 8, 2002 the Company placed 500,000 shares of its common stock into escrow and on May 17, 2002, in final settlement, 353,844 shares of common stock held in escrow were remitted to the creditor and 146,156 shares of common stock were returned to the Company. The value of the shares remitted to the creditor approximated \$17,000.

In April 2002, the Company issued options and warrants to purchase an aggregate of 5,300,000 shares of common stock to its key consultants. Such options and warrant, using the Black-Scholes option valuation formula, were valued at \$157,000, which was charged to operations as a non cash expense.

In April of 2002, the Company issued to Lewis S. Schiller, its Chief Executive Officer and Chairman, a warrant to purchase 20,000,000 million shares of common stock at \$0.043 per share, the fair market value at date of issuance and issued to Grazyna B. Wnuk, its Vice-President and director, a warrant to purchase 10,000,000 shares of common stock at \$0.043 per share, the fair market value at date of issuance. Originally, the warrants issued to Lewis S. Schiller provided for an exercise price of \$0.001 per share with regards to 10,000,000 shares and such exercise price was subsequently increased to \$0.043 per share. These warrants issued to Lewis S. Schiller and Grazyna B. Wnuk provide for cashless exercise provisions which requires the Company to calculate compensation expense on the underlying shares for each reporting period that the

## Edgar Filing: FINX GROUP INC - Form 10QSB

warrants or any portion thereof are outstanding. As of June 30, 2002, the non cash compensation expense charged to operations for such stock appreciation rights related to the warrants was \$2,010,000.

See Notes to Unaudited Consolidated Interim Financial Statements.

continued

Page 6

---

### The Finx Group, Inc. and Subsidiaries Unaudited Consolidated Statements of Cash Flows

---

Six Months ended June 30,

2002

#### SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

In May 2002, the Company issued to Lewis S. Schiller an option to purchase 1,500,000 shares of common stock, which resulted in a \$15,000 of non cash charge to operations.

On August 31, 2001, the Company entered into a non-binding letter of intent with NeoMedia Technologies, Inc. to purchase from them, all assets related to NeoMedia-Qode Software and Service Business of NeoMedia, Inc., which business consists of the ownership and operation of a comprehensive universal Internet database of consumer product information accessible through the scanning or searching of Universal Product Codes including the delivery of targeted promotions, coupons and special offers through a proprietary database and software. Since August 31, 2001, the Company had made certain payments related to the NeoMedia-Qode Software and Service Business of NeoMedia, Inc. in the amount of \$117,000 and in June 2002, upon its determination that it would not consummate the asset acquisition, such amounts were written-off and charged to operations.

See Notes to Unaudited Consolidated Interim Financial Statements.

Page 7

---

### The Finx Group, Inc. and Subsidiaries Footnotes to Unaudited Consolidated Interim Financial Statements Three and Six Months Ended June 30, 2002 and 2001

---

#### 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of The Finx Group, Inc. ("The Finx Group" or, the "Company") have been prepared in accordance with Regulation S-B promulgated by the Securities and Exchange Commission and do not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, these interim financial statements include all adjustments necessary in order to make the financial

## Edgar Filing: FINX GROUP INC - Form 10QSB

statements not misleading. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company and management's discussion and analysis of financial condition and results of operations included in the Annual Report on Form 10-KSB for the year ended December 31, 2001. Certain reclassifications were made to prior year amounts to conform to the current year presentation.

The accompanying unaudited interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, the Company has a history of net losses and as of June 30, 2002 has a working capital deficiency of \$8.5 million and capital deficiency of \$7.4 million. Since April of 1999 the Company has relied on financial support from its controlling stockholder, The Trinity Group-I, Inc. ("Trinity") and other related parties and since September 25, 2001 has compensated its employees and key consultants with stock options which were registered on Form S-8. Management is currently seeking additional financing; however no assurances can be made that such financing will be consummated. The continuation of the Company as a going concern is dependent upon its ability to obtain financing, and to use the proceeds from any such financing to increase its business to achieve profitable operations. The accompanying consolidated financial statements do not include any adjustments that would result should the Company be unable to continue as a going concern.

### 2. Significant Accounting Policies

The accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements in the December 31, 2001 Form 10-KSB.

On April 30, 2002, the Financial Accounting Standards Board (FASB) issued Statement No 145, Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Statement 145 rescinds Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in Opinion 30 will now be used to classify those gains and losses. Statement 64 amended Statement 4, and is no longer necessary because Statement 4 has been rescinded. Statement 145 amends Statement 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. This amendment is consistent with the FASB's goal of requiring similar accounting treatment for transactions that have similar economic effects. This Statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice.

Page 8

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."

The Company expects that the adoption of the new statements will not have a significant impact on its financial statements. It is not possible to quantify the impact until the newly issued statements have been studied.



## Edgar Filing: FINX GROUP INC - Form 10QSB

### 3. Basic and Diluted Loss Per Share

Basic loss per share reflects the amount of loss for the period attributable to each share of common stock outstanding during the reporting period. Diluted loss per share reflects basic loss per share, while giving effect to all dilutive potential common shares that were outstanding during the period, such as common shares that could result from the potential exercise or conversion of securities into common stock. The computation of diluted loss per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect on loss per share (i.e. reducing loss per share). The dilutive effect, if any, of outstanding options and warrants and their equivalents would be reflected in dilutive earnings per share by the application of the treasury stock method which recognizes the use of proceeds that could be obtained upon the exercise of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common stock at the average market price of the common stock during the period.

For the period from January 1, 2002 through January 15, 2002, the Company had outstanding options to purchase 2,300,000 shares of common stock at \$0.15 per share. On April 1, 2002 the Company issued a warrant to purchase 150,000 shares of common stock at \$0.01 per share of which 148,500 were exercised upon issuance and 1,500 were outstanding from April 1, 2002 through June 30, 2002. On April 8, 2002, the Company issued options to purchase 5,150,000 shares of common stock at \$0.04 per share, which were all exercised on the date of issuance. On April 8, 2002 Company issued to Lewis S. Schiller, its Chief Executive Officer and Chairman, a warrant to purchase 20,000,000 million shares of common stock at \$0.043 per share, the fair market value at date of issuance and issued to Grazyna B. Wnuk, its Vice-President and director, a warrant to purchase 10,000,000 shares of common stock at \$0.043 per share, the fair market value at date of issuance, all such warrants were outstanding for the period from April 8, 2002 through June 30, 2002. On May 8, 2002, the Company issued to Lewis S. Schiller an option to purchase 1,500,000 shares of common stock at \$0.04 per share, which was exercised on the date of issuance.

For the period from January 1, 2001 through March 30, 2001, the Company had outstanding warrants to purchase 1,280,000 shares of common stock at \$0.01 per share and for the period from January 1, 2001 through May 4, 2001, the Company had outstanding warrants to purchase 135,000 shares of common stock at \$10 per share.

For the three and six months ended June 30, 2002 and 2001, all of the Company's potential common shares were anti-dilutive and a dual presentation of loss per share is not presented. As of June 30, 2002 the Company had outstanding warrants to purchase 30,000,000 shares of common stock at \$0.043 per share and a warrant to purchase 1,500 shares at \$0.01 per share. Such warrants may dilute earnings per share in the future.

Page 9

### 4. Segment Information

Statement of Financial accounting standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" established standards for the reporting of information about operating segments and defines operating segments as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is Lewis S. Schiller, the Company's Chief Executive Officer, who evaluates the Company's businesses based upon the

## Edgar Filing: FINX GROUP INC - Form 10QSB

separate financial statements and information of the underlying subsidiaries of the Company. Based on the above evaluation, the Company has identified four separate reportable business segments as follows:

- (1) Electro-Mechanical and Electro-Optical Products
- (2) Specialized Vending Machines and Avionics Equipment
- (3) Security Systems
- (4) Software Development

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. There are no intersegment sales but there are intersegment advances and related interest charges, and management fees charged by The Finx Group, all of which are eliminated in the consolidated financial statements. All of the Company's segments are beyond their development stages and have developed commercially viable products and or services. However, as of June 30, 2002, only the Electro-Mechanical and Electro-Optical Products and Specialized Vending Machines and Avionic Equipment segments have generated meaningful revenues. The remaining segments require additional funding to enable them to either produce their products or provide their services and to market such products and services to their target consumers. Until such funding is obtained, if ever, no assurances can be given that the Company's segments will ever produce meaningful revenues.

Three Months Ended June 30,	2002
<b>Revenues:</b>	
Electro-Mechanical and Electro- Optical Products	\$ 353,000 \$
Specialized Vending Machines and Avionics Equipment	127,000
Corporate consulting fees	480,000
Inter segment consulting fees	135,000
Inter segment consulting fees	(135,000)
Total revenues	\$ 480,000 \$
<b>Operating loss:</b>	
Electro-Mechanical and Electro- Optical Products	\$ (183,000) \$
Specialized Vending Machines and Avionics Equipment	42,000
Security Systems	(496,000)
Software Development	(34,000)
Corporate costs and expenses	(671,000)
Corporate costs and expenses	(2,695,000)
Total operating loss	\$ (3,366,000) \$

Edgar Filing: FINX GROUP INC - Form 10QSB

Three Months Ended June 30,	2002	
Interest expense:		
Electro-Mechanical and Electro- Optical Products	\$	74,000 \$
Specialized Vending Machines and Avionics Equipment		14,000
Security Systems		42,000
Software Development		13,000
		143,000
Corporate costs and expenses		19,000
Inter segment charges		(110,000)
<b>Total interest expense</b>	<b>\$</b>	<b>52,000 \$</b>
Net Income (Loss):		
Electro-Mechanical and Electro- Optical Products	\$	(246,000) \$
Specialized Vending Machines and Avionics Equipment		23,000
Security Systems		(540,000)
Software Development		(48,000)
		(811,000)
Corporate costs and expenses		(2,610,000)
Loss from continuing operations		(3,421,000)
Loss from discontinued segments		(185,000)
<b>Total net loss</b>	<b>\$</b>	<b>(3,606,000) \$</b>
Depreciation and amortization:		
Electro-Mechanical and Electro- Optical Products	\$	1,000 \$
Security Systems		36,000
Software development		1,000
		38,000
Corporate		5,000
Depreciation and amortization, continuing operations		43,000
Depreciation and amortization, discontinued segments		--
<b>Total depreciation and amortization</b>	<b>\$</b>	<b>43,000 \$</b>
Six Months Ended June 30,		
2002		
Revenues:		
Electro-Mechanical and Electro- Optical Products	\$	608,000 \$
Specialized Vending Machines and Avionics Equipment		231,000
Software Development		15,000
		854,000
Corporate consulting fees		270,000
Inter segment consulting fees		(270,000)

Edgar Filing: FINX GROUP INC - Form 10QSB

---

Total revenues	\$ 854,000	\$
----------------	------------	----

---

Page 11

4. Segment Information (continued)

---

Six Months Ended June 30,	2002	
---------------------------	------	--

---

Operating loss:		
Electro-Mechanical and Electro- Optical Products	\$ (250,000)	\$
Specialized Vending Machines and Avionics Equipment	43,000	
Security Systems	(810,000)	
Software Development	(57,000)	
	(1,074,000)	
Corporate costs and expenses	(2,978,000)	
	(4,052,000)	\$
	\$ (4,052,000)	\$

---

Interest expense:		
Electro-Mechanical and Electro- Optical Products	\$ 136,000	\$
Specialized Vending Machines and Avionics Equipment	28,000	
Security Systems	67,000	
Software Development	41,000	
	272,000	
Corporate costs and expenses	36,000	
Inter segment charges	(207,000)	
	101,000	
	\$ 101,000	\$

---

Net Income (Loss):		
Electro-Mechanical and Electro- Optical Products	\$ (365,000)	\$
Specialized Vending Machines and Avionics Equipment	5,000	
Security Systems	(877,000)	
Software Development	(98,000)	
	(1,335,000)	
Corporate costs and expenses	(2,827,000)	
	(4,162,000)	
Loss from continuing operations	(4,162,000)	
Loss from discontinued segments	(306,000)	
	(4,468,000)	
	\$ (4,468,000)	\$

---

Depreciation and amortization:		
Electro-Mechanical and Electro- Optical Products	\$ 2,000	\$
Security Systems	58,000	

Edgar Filing: FINX GROUP INC - Form 10QSB

Software development		1,000	
-----			
Corporate		61,000	
		11,000	
-----			
Depreciation and amortization, continuing operations		72,000	
Depreciation and amortization, discontinued segments		10,000	
-----			
Total depreciation and amortization	\$	82,000	\$
-----			

Page 12

4. Segment Information (continued)

			June 30,
			2002
-----			
Assets:			
Electro-Mechanical and Electro- Optical Products	\$	1,664,000	\$
Specialized Vending Machines and Avionics Equipment		397,000	
Security Systems		1,052,000	
Software Development		3,000	
-----			
		3,116,000	
Corporate		20,176,000	
Inter segment investments		(13,443,000)	
Inter segment receivables		(7,573,000)	
-----			
Assets, continuing operations		2,276,000	
Net assets of discontinued segments		--	
-----			
Total assets	\$	2,276,000	\$
-----			

5. Discontinued Segments

During the fourth quarter of 2001, the operations of Shopclue.com, Inc. ("Shopclue.com") and Bizchase, Inc. ("Bizchase") ceased and during the 2nd quarter of 2002 the operations of Starnet365.com, Inc. ("Starnet365.com") ceased and as such their operations are presented as discontinued. The information regarding the Company's discontinued operations is summarized as follows:

As of June 30, 2002	Starnet365.com	Shopclue.com	Bizchase
-----			

Net Current Liabilities of Discontinued Segments:

Edgar Filing: FINX GROUP INC - Form 10QSB

Accounts payable	\$431,000	\$31,000	\$28,000
Accrued payroll	-	132,000	130,000
Accrued payroll taxes	-	164,000	97,000
Customer deposits	13,000	-	-
Capital lease obligations	-	-	37,000
Accrued management fees, related Parties	360,000	-	270,000
Accrued interest expense, related Parties	130,000	18,000	170,000
Notes payable, related parties	816,000	-	1,513,000
Eliminated inter segment liabilities	(1,306,000)	(18,000)	(1,953,000)
<b>Total current liabilities</b>	<b>444,000</b>	<b>327,000</b>	<b>292,000</b>
Interest income receivable, related Parties	2,000	2,000	-
Notes receivable, related party	41,000	8,000	-
Eliminated inter segment assets	(43,000)	(10,000)	-
<b>Total current assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net current liabilities of discontinued Segments</b>	<b>\$444,000</b>	<b>\$327,000</b>	<b>\$292,000</b>

Page 13

5. Discontinued Segments (continued)

For the Three Months Ended June 30, 2002	Starnet365.com	Shopclue.com	Bizchase
Loss from Operations of Discontinued Segments:			
Write-off impaired assets	\$154,000	-	-
Other general and administrative Expense	3,000	\$2,000	\$1,000
Related party management fees	45,000	-	-
<b>Operating expenses</b>	<b>202,000</b>	<b>2,000</b>	<b>1,000</b>
Operating loss	(202,000)	(2,000)	(1,000)
Other income	(1,000)	-	-
Interest income, related parties	2,000	-	-
Interest expense and financing fees, related parties	(19,000)	-	-
Interest expense and financing fees	(1,000)	(3,000)	(1,000)
Elimination of inter segment Transactions	43,000	-	-

Edgar Filing: FINX GROUP INC - Form 10QSB

-----			
Loss from operations of discontinued Segments	(\$178,000)	\$ (5,000)	\$ (2,000)
-----			
For the Three Months Ended June 30, 2001	Starnet365.com	Shopclue.com	Bizchase
-----			
Loss from Operations of Discontinued Segments:			
Sales	\$88,000	\$9,000	-
Cost of goods sold	2,000	1,000	-
-----			
Gross profit	86,000	8,000	-
-----			
Depreciation and amortization	13,000	2,000	\$35,000
Selling expense	49,000	-	-
Other general and administrative Expense	142,000	8,000	54,000
Related party management fees	45,000	-	45,000
-----			
Operating expenses	249,000	10,000	134,000
-----			
Operating income (loss)	(163,000)	(2,000)	(134,000)
Other income (expense)	5,000	-	-
Interest income, related parties	-	3,000	-
Interest expense and financing fees, related Parties	(18,000)	-	(35,000)
Elimination of inter segment Transactions	45,000	(3,000)	48,000
-----			
Loss from operations of discontinued Segments	\$ (131,000)	\$ (2,000)	\$ (121,000)
-----			

Page 14

5. Discontinued Segments (continued)

-----			
For the Six Months Ended June 30, 2002	Starnet365.com	Shopclue.com	Bizchase
-----			
Loss from Operations of Discontinued Segments:			
Sales	\$5,000	-	-
Cost of goods sold	1,000	-	-
-----			
Gross profit	4,000	-	-
-----			
Write-off impaired assets	154,000	\$12,000	\$25,000
Bad debt expense	10,000	-	-
Other general and administrative Expense	57,000	4,000	3,000
Related party management fees	90,000	-	-

Edgar Filing: FINX GROUP INC - Form 10QSB

Operating expenses	311,000	16,000	28,000
Operating loss	(307,000)	(16,000)	(28,000)
Interest income, related parties	2,000	-	-
Interest expense and financing fees, related Parties	(37,000)	-	-
Interest expense and financing fees	-	(5,000)	(3,000)
Elimination of inter segment Transactions	88,000	-	-
Loss from operations of discontinued Segments	\$ (254,000)	\$ (21,000)	\$ (31,000)
For the Six Months Ended June 30, 2001	Starnet365.com	Shopclue.com	Bizchase
Loss from Operations of Discontinued Segments:			
Sales	\$146,000	\$18,000	-
Cost of goods sold	34,000	1,000	-
Gross profit	112,000	17,000	-
Depreciation and amortization	26,000	4,000	\$54,000
Bad debt expense	-	5,000	-
Selling expense	108,000	-	-
Other general and administrative Expense	516,000	11,000	322,000
Related party management fees	90,000	-	90,000
Operating expenses	740,000	20,000	466,000
Operating income (loss)	(628,000)	(3,000)	(466,000)
Other income (expense)	14,000	-	-
Interest income, related parties	-	7,000	-
Interest expense and financing fees, related Parties	(34,000)	-	(66,000)
Elimination of inter segment Transactions	90,000	(7,000)	97,000
Loss from operations of discontinued Segments	\$ (558,000)	\$ (3,000)	\$ (435,000)

Page 15

6. Contingencies and Commitments

Employment Agreements

The Company and Lewis S. Schiller have entered into an employment agreement whereby he is employed as the Company's Chief Executive Officer. Mr. Schiller's contract is for an initial term commencing April 29, 1999 through April 28, 2009 and provides annual compensation of \$500,000. Mr. Schiller's contract may be extended an additional five years and commencing 2002 his annual compensation shall be increased by the greater of 5% or the increase in the cost of living index. Mr. Schiller's contract provides him with a bonus for each year



## Edgar Filing: FINX GROUP INC - Form 10QSB

of the term equal to 10% of the amount by which the greater of consolidated net income before income taxes or consolidated net cash flow exceeds \$600,000. Mr. Schiller's contract entitles him to 20% of the gross profit on the sale of any of the Company's, or its subsidiaries, investments securities. Mr. Schiller's contract provides him the opportunity to participate in the future expansion of the Company whereby he is entitled, at his option, to purchase up to 25% of the authorized securities of any subsidiary which is organized for any purpose. Mr. Schiller's contract provides him with certain fringe benefits including a vehicle, health insurance and life insurance. In the event of a change of control, Mr. Schiller's contract provides him with severance equal to all amounts owed to him for the full term of the employment agreement.

In June of 2002, the Company and Grazyna B. Wnuk entered into an employment agreement whereby she is employed as the Company's Vice-President. Ms. Wnuk's contract is for an initial term commencing April 29, 1999 through April 28, 2009 and provides annual compensation of \$200,000. Ms. Wnuk's contract may be extended an additional five years and commencing 2002 her annual compensation shall be increased by the greater of 5% or the increase in the cost of living index. Ms. Wnuk's contract provides her with a bonus for each year of the term equal to 1% of the amount by which the greater of consolidated net income before income taxes or consolidated net cash flow exceeds \$600,000. Ms. Wnuk's contract entitles her to 1% of the gross profit on the sale of any of the Company's, or its subsidiaries, investments securities. Ms. Wnuk's contract provides her the opportunity to participate in the future expansion of the Company whereby she is entitled, at her option, to purchase up to 1% of the authorized securities of any subsidiary which is organized for any purpose. Ms. Wnuk's contract provides her with certain fringe benefits including a vehicle, health insurance and life insurance. In the event of a change of control, Ms. Wnuk's contract provides her with severance equal to all amounts owed to her for the full term of the employment agreement.

### Legal Proceedings

Although the Company is a party to certain legal proceedings that have occurred in the ordinary course of business, the Company does not believe such proceedings to be of a material nature with the exception of the following item.

On or about April 8, 2002, a complaint styled "Law Offices of Jerold K. Levien, against The Finx Group, Inc. f/k/a Fingermatrix, Inc., The Trinity Group-I, Inc." was filed in the Supreme Court of the State of New York County of New York. The nature of the action is for breach of contract with regard to the non-payment of legal invoices for services purported to have been rendered by the plaintiff, and the relief sought is \$334,595, such amounts having been accrued on the books of the Company as of December 31, 2000, with interest from January 1999. The Company believes it has meritorious defenses to the complaint and intends to vigorously contest this complaint.

Due to uncertainties in the legal process, it is at least reasonably possible that the Company's opinion of the outcome of the following contingent liability will change in the near term and there exists the possibility that there could be a material adverse impact on the operations of the Company.

### 7. Subsequent Events

On July 25, 2002, the Company filed a preliminary information statement in order to increase its authorized shares of common stock from its existing 50,000,000 shares to 750,000,000 shares which has been authorized by the written consent of the holders of a majority of the voting power of the outstanding

## Edgar Filing: FINX GROUP INC - Form 10QSB

shares of the Common Stock. The Company requires additional shares of its Common Stock in order to (i) continue efforts to obtain equity financings from the proposed sale of convertible preferred stock; (ii) to provide compensation in the form of option grants to its executive employees and key consultants; (iii) to facilitate the conversion of its existing convertible preferred stock; (iv) to reserve shares for outstanding warrants to purchase Common Stock; and (v) provide sufficient shares for other corporate purposes as such needs may arise.

### 8. Exclusive License Agreement

On September 13, 1999, Secured Portal Systems, Inc. ("Secured Portals"), an 89% owned subsidiary of the Company, entered into an exclusive distribution agreement with GIL Security Systems, Inc. ("GIL"). GIL is engaged in the manufacture and sale of security entrance systems for use as a security device by a variety of customers at airports, federal buildings, court houses, embassies, correctional facilities, schools, governmental operations, department stores and other retail outlets. GIL is a subsidiary of Georal International, Ltd. ("Georal") and holds all world-wide rights related to the intellectual property related to the GIL security systems, including trademarks, patents and technology, as licensed to it by Alan J. Risi, the controlling owner of both GIL and Georal. The exclusive distribution agreement gives Secured Portals distribution rights for the sale of GIL's security entrance systems to certain categories of customers. The products covered by the exclusive distribution agreement includes all of GIL's products that existed on September 13, 1999 and all products developed during the term of the exclusive distribution agreement including all models of the GIL-2001 security door. The categories of customers covered by the exclusive distribution agreement includes the United States Treasury Department, the United States Central Intelligence Agency and all other United States Government intelligence agencies, the United States National Security Agency, the United States Defense Intelligence Agency, the United States Department of the Navy, the United States Air Force, the United States Army, all United States Federal Courts and all United States Embassies, all department stores and retail stores located in the United States (including all retail stores located in foreign countries which are part of a retail store chain which is based in the United States), the Government of Israel, NCR Corp. and Sun Microsystems, Inc. The exclusive distribution agreement commenced on September 1, 1999 and had an initial expiration date of August 31, 2004 which was later extended to August 31, 2009.

As an inducement to obtain the exclusive distribution agreement and in exchange for 1,000,000 common stock shares of GIL, we issued 14,134 shares of Fingermatrix, Inc.'s Series A preferred stock, convertible into 10,498,735 shares of Fingermatrix, Inc.'s common stock (on July 14, 2000, such shares were exchanged for 1,049,874 shares of The Finx Group, Inc.'s common stock) to Alan J. Risi. On the initial date that the exclusive distribution agreement was entered into, the GIL 2001 security door had not been certified by the U.S. State Department and no sales channel pipeline had been developed and the underlying costs of the shares issued were not capitalized..

On December 11, 2001, the GIL 2001 security door received certification by the U.S. State Department. On February 21, 2002, the exclusive licensing agreement was amended whereby the categories of customers was expanded to include all financial institutions around the world and whereby Secured Portals received a right of first refusal to be the exclusive distributor for sales to any governmental body in the world which is not currently included in the exclusive licensing agreement as a protected customer. As consideration for the amendment entered into on February 21, 2002, the Company issued to Alan Risi 40,000 shares of a newly created Series D Preferred Stock that is convertible into 4,000,000 million shares of the Company's common stock. On May 16, 2002, the exclusive licensing agreement for the Georal security systems was further amended whereby the exclusive distribution agreement was expanded to give Secured Portal System's Inc. exclusive world wide sales and marketing rights,

## Edgar Filing: FINX GROUP INC - Form 10QSB

for the term of the agreement extending to all casinos, malls, stadiums, office buildings and high rises. As consideration for the amendment entered into on May 16, 2002, the Company issued to Alan Risi 60,000

Page 17

shares of its Series C Preferred Stock which are convertible into 6,000,000 shares of the Company's Common Stock. Using the Black-Scholes option valuation formula, the convertible preferred stock was valued at \$1,100,000, the amount included in other assets as "Exclusive License Agreement". The asset is being amortized on the straight-line method over the remaining life of the exclusive license which expires September 18, 2009. During the three and six months ended June 30, 2002, amortization expense on the exclusive license amounted to \$36,000 and \$58,000, respectively.

Page 18

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations may be deemed to include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risk and uncertainty. Although management believes that its expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved.

The important factors that could cause actual results to differ from those in the forward-looking statements herein (the "Cautionary Statements") are more fully described in the Company's December 31, 2001 Form 10-KSB and include, without limitation: We have a history of losses and cash flow deficits; the market for our common stock is limited; trading in our securities may be restricted due to compliance with applicable penny stock regulations; our company is subject to control by a principal stockholder; a significant portion of the net proceeds of any potential financing may be used for the payment of related party and other indebtedness and for salaries of executives and key personnel; we require additional financing for our business activities; we may use a significant portion of the proceeds from any financing offering to fund new businesses; we have granted significant benefits under certain existing and proposed employment agreements; the proposed activities of FMX Corp. will be dependent upon patent protection; rapid technological change could render certain of our products and proposed products obsolete or non-competitive; we cannot predict market acceptance for our proposed products; the business in which we intend to engage in is subject to intense competition; the board of directors may issue additional preferred stock in the future; a substantial number of our shares of common stock will be available for future sale in the public market; we do not intend to pay any dividends on the common stock in the foreseeable future; our subsidiaries have outstanding significant delinquent payroll taxes due; the liability of our officers and directors to us and our shareholders is limited; dependence on key suppliers; reliance on management; dependence on key personnel; computer viruses; we could be subject to potential uninsured liability, the risks relating to legal proceedings, as well as other risks referenced from time to time in the Company's filings with the SEC. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements. The Company does not undertake any obligation to release publicly any revisions to such forward-looking statements

## Edgar Filing: FINX GROUP INC - Form 10QSB

to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Company considers its critical accounting policies to be those that require the more significant judgments and estimates in the preparation of the Company's financial statements, including the following: estimates of reserves for slow moving inventory; impairment of long-lived assets, including the valuation of the exclusive license agreement; accounting for expenses in connection with stock options and warrants; provisions for doubtful accounts; and accounting for income taxes. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgment and estimates. Actual results could differ materially from those estimates. There have been no significant changes in assumptions, estimates and judgments in the preparation of these quarterly financial statements from the assumptions, estimates and judgments used in the preparation of the Company's latest audited financial statements.

Page 19

### Results of Operations

As more fully disclosed in the footnotes to the unaudited interim financial statements, The Finx Group has four identifiable business segments. The operations of each of the business segments are discussed separately as follows:

#### Electro-Mechanical and Electro-Optical Products

The Electro-Mechanical and Electro-Optical Products segment comprises the activities of Sequential Electronic Systems, Inc. ("Sequential"), which is primarily engaged in the design, manufacture and assembly of precision electro-mechanical and electro-optical products and devices for sale to commercial and governmental customers throughout the United States. Among such products and devices are optical encoders, encoded motors and limit programmers.

Sequential's revenues in the current quarter were \$353,000, representing an increase of \$44,000 from the prior year quarter. Sequential's cost of sales for the current quarter included a reserve for slow moving inventory of \$117,000 compared to a reserve of \$125,000 in the prior year quarter. As a result of the inventory reserves, Sequential's cost of sales exceeded its revenues in the current quarter by \$46,000 and its gross profit in the prior year quarter was a nominal \$20,000. Excluding the effects of the inventory reserves, Sequential's current quarter margin, was 20% of sales compared to 47% of sales in the prior year quarter. Sequential's revenues in the current six month period were \$608,000, representing a decrease of \$26,000 from the prior year six month period. Sequential's cost of sales for the current and prior six month periods included reserves for slow moving inventory of \$117,000 and \$250,000, respectively. The inventory reserves resulted in nominal gross profits for both the current and prior six month periods. Excluding the effects of the inventory reserves, Sequential's current six month period margin was 20% of sales compared to 43% of sales in the prior six month period.

Sequential's relatively low revenue volume has resulted in margins that

## Edgar Filing: FINX GROUP INC - Form 10QSB

are volatile whereby any dollar value changes in production costs have a significant impact on margins as a percentage of sales. Sequential's revenue has been negatively impacted by its inability to pay for the materials necessary to build the products included in its backlog and its inability to fund the sales costs necessary to procure new contracts. This inability to manufacture product has resulted in excessive downtime and idle capacity and consequently margins have been significantly reduced. As of June 30, 2002, Sequential's backlog approximated \$125,000.

Sequential's operating expenses for the current and prior year quarters were \$137,000 and \$60,000, respectively, and included \$45,000 in each quarter for management fees charged by The Finx Group. Sequential's operating expenses for the current and prior year six month periods were \$257,000 and \$244,000, respectively, and included \$90,000 in each period for management fees charged by The Finx Group. As a result of the foregoing, Sequential's operating loss increased \$143,000 when comparing the current and prior year quarters and increased \$27,000 when comparing the current and prior year six month periods.

### Specialized Vending and Avionics Equipment

The Specialized Vending and Avionics Equipment segment comprises the activities of S-Tech, Inc. ("S-Tech") which designs and manufactures two specialized product lines consisting of specialized vending machines and avionics equipment. "Specialized Vending" is an industry term used to describe a vending product that utilizes electronic circuitry and/or computer software. Among the vending machines manufactured by S-Tech are prepaid telephone debit card machines, bill payment kiosks, information kiosks, and stamp vending machines.

S-Tech's revenues for the current quarter were \$127,000, representing an increase of \$82,000 from the prior year quarter while margins for the current and prior year quarters were 44% and 36% of sales, respectively. S-Tech's revenues for the current six month period were \$231,000, representing an increase of \$101,000 from the prior six month period, while margins for the current and prior six month periods was

Page 20

32% and 35% of sales, respectively. S-Tech's revenues have been negatively impacted as a result of its inability to pay vendors for materials necessary to build components for its existing contracts and its lack of meaningful revenue has resulted in volatile margin percentages.

S-Tech's operating expenses were nominal for all periods. As a result of the foregoing, S-Tech's operating income increased \$33,000 from \$9,000 for the prior year quarter \$42,000 for the current quarter, and increased \$24,000 from \$19,000 for the prior six month period to \$43,000 for the current six month period.

### Security Systems

The Security Systems segment comprises the activities of Secured Portal Systems, Inc. and FMX Corp. Secured Portal Systems, Inc. activities consist of the marketing and distribution of the Georal Security Systems to both those customers for which it has exclusive distribution rights and to others as to which it has non-exclusive rights. Many of the customers to whom Secured Portal Systems, Inc. will seek to market the Georal Security Systems will be domestic and foreign government purchasers as well as commercial users. On December 11, 2001, the GIL-2001 security door received certification from the U.S. State Department necessary for its possible procurement for use in U.S. embassies,

## Edgar Filing: FINX GROUP INC - Form 10QSB

consulates and other governmental installations both in the U.S. and abroad. FMX Corp. is developing products and systems utilizing a proprietary and patented electronic fingerprint identification technology. The fingerprint identification technology being developed and utilized by FMX Corp. is a fingerprint identification scanning technology utilized for a variety of access control and law enforcement purposes. Applications for this technology include access control systems for banks, airports, industrial and government facilities, voter registration and electoral anti-fraud systems, welfare and social program identification systems, immigration control, suspect booking, prisoner and detainee movement and release control systems, and sensitive employment authorization systems.

Secured Portal Systems, Inc.'s original marketing strategy was solely focused on sales of the GIL-2001 security door to the U.S. State Department. Starting in February 2002, we have expanded our marketing efforts to include all customers under the exclusive distribution agreement and have built a sales team for such purpose. Secured Portal Systems, Inc. faces competition from companies which have far greater financial resources, personnel and experience. Although we believe that we have a unique product and that the GIL-2001 security door is the only product of its type that is certified by the U.S. State Department, we give no assurances that we will be able to generate meaningful revenues using our exclusive license. FMX Corp. has developed a fingerprint identification system that could be used in conjunction with the Georal Security System and may generate revenues in coordination with sales, if any, of the Georal Security Systems. The Security Systems operating expenses and therefore its net operating losses increased \$305,000 from \$191,000 for the prior year quarter to \$496,000 for the current quarter, and increased \$438,000, from \$372,000 for the prior six month period to \$810,000 for the current six month period. Increases in the Security System's operating expenses included consulting fees for the expanded sales team and amortization of the capitalized costs related to the recent expansion of the exclusive license agreement. For both the current and prior year quarters, the Security System's operating expense included \$45,000 of management fees charged by The Finx Group and included \$90,000 of such fees in each of the current and prior six month periods.

### Software Development

Software Development reflects the activities of Granite Technologies, Inc. Granite Technologies, Inc was acquired on September 19, 2001 and as such the Company has reported the operations from this date forward. Revenues for the periods presented were \$15,000 generated during the 1st Quarter of 2002, pursuant to a contract with Virginia Commonwealth University. Granite Technologies, Inc. develops and sells software programs for Smart Card applications. Granite Technologies, Inc. has also developed a software program that is used in e-commerce kiosks that are designed to operate like an ATM machine but for commercial applications other than just banking. Granite Technologies, Inc. has provided Virginia Commonwealth University with two software solutions which we call "the Card Office Solution" and "the Recreational Sports Solution". During the current quarter and six month period, Granite Technologies,

Page 21

Inc.'s operating expenses were \$34,000 and \$72,000, respectively, and its operating losses were \$34,000 and \$57,000, respectively.

### Corporate costs and expenses

Corporate costs and expenses comprise the expenses of The Finx Group, the holding company. The Finx Group charges certain of its subsidiaries

## Edgar Filing: FINX GROUP INC - Form 10QSB

management fees which were \$135,000 for both, the current and prior year quarters, and were \$270,000, for both the current and prior six month period. All of such management fees are eliminated in the consolidated results of operations.

In April 2002, The Finx Group issued options and warrants to purchase an aggregate of 5,300,000 shares of common stock to its key consultants. Such options and warrants, using the Black-Scholes option valuation formula, were valued at \$157,000, which was charged to operations as a non cash expense. In April of 2002, The Finx Group issued to Lewis S. Schiller, its Chief Executive Officer and Chairman, a warrant to purchase 20,000,000 million shares of common stock at \$0.043 per share, the fair market value at date of issuance and issued to Grazyna B. Wnuk, its Vice-President and director, a warrant to purchase 10,000,000 shares of common stock at \$0.043 per share, the fair market value at date of issuance. Originally, the warrants issued to Lewis S. Schiller provided for an exercise price of \$0.001 per share with regards to 10,000,000 shares and such exercise price was subsequently increased to \$0.043 per share. These warrants issued to Lewis S. Schiller and Grazyna B. Wnuk provide for cashless exercise provisions which requires The Finx Group to calculate compensation expense on the underlying shares for each reporting period that the warrants or any portion thereof are outstanding. As of June 30, 2002, the non cash compensation expense charged to operations for such stock appreciation rights related to the warrants was \$2,010,000. In May 2002, The Finx Group issued to Lewis S. Schiller an option to purchase 1,500,000 shares of common stock, which resulted in a \$15,000 of non cash expense charged to operations.

On August 31, 2001, The Finx Group entered into a non-binding letter of intent with NeoMedia Technologies, Inc. to purchase from them, all assets related to NeoMedia-Qode Software and Service Business of NeoMedia, Inc., which business consists of the ownership and operation of a comprehensive universal Internet database of consumer product information accessible through the scanning or searching of Universal Product Codes including the delivery of targeted promotions, coupons and special offers through a proprietary database and software. Since August 31, 2001, The Finx Group had made certain payments related to the NeoMedia-Qode Software and Service Business of NeoMedia, Inc. in the amount of \$117,000 and in June 2002, upon its determination that it would not consummate the asset acquisition, such amounts were written-off and charged to operations.

The Finx Group's operating expenses includes the accrued salaries of its executive officers which are owed to its executives pursuant to employment agreements. As of June 30, 2002, Mr. Lewis S. Schiller and Ms. Grazyna B. Wnuk are owed an aggregate of \$1.6 million for unpaid salaries. The current quarterly charge to operating expenses for such executive contracts is \$338,000.

### Interest Expense and Financing Fees, Other

All interest expense and financing fees, other for the current quarter and six month period relates to interest expense accrued on delinquent payroll taxes. For the prior year quarter and six month period, \$27,000 and \$53,000, respectively, of such amounts relates to interest accrued on delinquent payroll taxes and the remainder for such prior periods relates to interest expense on Sequential's revolving line of credit with FINOVA Capital Corporation which was paid in full in January of 2002.

### Interest Expense and Factoring Fees, Related Parties

Interest expense and financing fees on related party notes was \$34,000 and \$73,000, respectively, for the current and prior year quarters and \$60,000 and \$128,000, respectively, for the current and prior six month periods. The Company and its subsidiaries incur interest expense on advances from Trinity, advances from Universal International, Inc., a company owned by Grazyna Wnuk, an

## Edgar Filing: FINX GROUP INC - Form 10QSB

officer of the Company, a loan from E. Gerald Kay, a former director, and advances from Blake Schiller and Carol

Page 22

Schiller, both immediate family members of Lewis Schiller, an officer of the Company. In addition S-Tech incurs interest expense and factoring fees pursuant to a factoring agreement with Trinity Factoring Corp., a financing company owned by Lewis Schiller. In May of 2001, The Trinity Group, Inc. converted \$3.5 million of such debt into equity of the Company. Interest accrued on such notes are generally calculated at 9% and total principal and interest owed on such related party obligations as of June 30, 2002, approximated \$2.1 million.

### Discontinued Operations

During the fourth quarter of 2001 both Shopclue.com, Inc. and Bizchase, Inc. ceased operations and during the second quarter of 2002 Starnet365.com, Inc. ceased operations. During the current and prior quarters such entities incurred aggregate losses of \$185,000 and \$254,000, respectively, and during the current and prior six month periods incurred aggregate losses of \$306,000 and \$996,000, respectively.

### Financial Condition - Liquidity and Capital Resources

As of June 30, 2002 the Company had a working capital deficiency of \$8.5 million. Approximately \$3.8 million of such deficiency relates to amounts owed to related parties, including accrued and unpaid salaries of \$1.7 million owed to Lewis Schiller and Grazyna Wnuk, and \$2.1 million owed in the aggregate to related parties for advances and loans made to fund the operations of the Company. The delinquent payroll taxes of Sequential Electronic Systems, Inc., S-Tech, Inc., Granite Technologies, Inc., Shopclue.com, Inc. and Bizchase, Inc. in the aggregate, represents an additional \$1.4 million of the working capital deficiency. Such delinquencies could have an adverse impact on our ability to obtain additional financing. During the current six month period we used \$926,000 for operations. Historically, we have funded our operations with advances from The Trinity Group-I, Inc., our controlling shareholder. During the 1st and 2nd Quarters of 2002 we used stock options to compensate our employees and key consultants.

On July 25, 2002, the Company filed a preliminary information statement in order to increase its authorized shares of common stock from its existing 50,000,000 shares to 750,000,000 shares which has been authorized by the written consent of the holders of a majority of the voting power of the outstanding shares of the Common Stock. The Company requires additional shares of its Common Stock in order to (i) continue efforts to obtain equity financings from the proposed sale of convertible preferred stock; (ii) to provide compensation in the form of option grants to its executive employees and key consultants; (iii) to facilitate the conversion of its existing convertible preferred stock; (iv) to reserve shares for outstanding warrants to purchase Common Stock; and (v) provide sufficient shares for other corporate purposes as such needs may arise.

The accompanying unaudited interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, the Company has a history of net losses and as of June 30, 2002 has a working capital deficiency of \$8.5 million and capital deficiency of \$7.4 million. Since April of 1999 the Company has relied on financial support from its controlling stockholder, The Trinity Group-I, Inc. and other related parties and since September 25, 2001 has compensated its employees and key consultants with stock options which were registered on Form S-8. Management is currently



## Edgar Filing: FINX GROUP INC - Form 10QSB

seeking additional financing; however no assurances can be made that such financing will be consummated. The continuation of the Company as a going concern is dependent upon its ability to obtain financing, and to use the proceeds from any such financing to increase its business to achieve profitable operations. The accompanying consolidated financial statements do not include any adjustments that would result should the Company be unable to continue as a going concern.

Page 23

### PART II OTHER INFORMATION

#### Item 1. Legal Proceedings

Although the Company is a party to certain legal proceedings that have occurred in the ordinary course of business, the Company does not believe such proceedings to be of a material nature with the exception of the following item. On or about April 8, 2002, a complaint styled "Law Offices of Jerold K. Levien, against The Finx Group, Inc. f/k/a Fingermatrix, Inc., The Trinity Group-I, Inc." was filed in the Supreme Court of the State of New York County of New York. The nature of the action is for breach of contract with regard to the non-payment of legal invoices for services purported to have been rendered by the plaintiff, and the relief sought is \$334,595, such amounts having been accrued on the books of the Company as of December 31, 2000, with interest from January 1999. The Company believes it has meritorious defenses to the complaint and intends to vigorously contest this complaint. Due to uncertainties in the legal process, it is at least reasonably possible that the Company's opinion of the outcome of the following contingent liability will change in the near term and there exists the possibility that there could be a material adverse impact on the operations of the Company.

#### Item 6. Exhibits

99.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Page 24

### SIGNATURES

In accordance with the Officer requirements of the Exchange Act, and the registrant caused this report Director to be signed on its behalf by the undersigned, thereunto duly authorized.

The FINX GROUP, INC.

/S/ Lewis S. Schiller Chief Executive Officer and Director August 19, 2002  
(Principal Executive and Accounting Officer)

Page 25

Exhibit 99.1

## Edgar Filing: FINX GROUP INC - Form 10QSB

Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

In connection with the Quarterly Report of The Finx Group, Inc. on Form 10QSB for the period ending June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report") the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that (based on his knowledge): 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

/s/ Lewis S. Schiller  
Chief Executive Officer and  
Chief Financial Officer

August 19, 2002