FINDEX COM INC
Form 10KSB/A
September 28, 2005

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

**FORM 10-KSB/A**
**Amendment Number 1**

(Mark One)

**[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2000.

**[_] TRANSITION REPORT UNDER 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.**
(Name of Small Business Issuer in its Charter)

| Nevada<br>(State or other Jurisdiction of Incorporation or Organization) | 88-0379462<br>(I.R.S. Employer Identification No.) |
|---|---|
| 11204 Davenport Street, Suite 100, Omaha, Nebraska<br>(Address of Principal Executive Offices) | 68154<br>(Zip Code) |

(402) 333-1900
(Issuer's Telephone Number, Including Area Code)

**Securities registered under Section 12(b) of the Exchange Act:**

None

**Securities registered under Section 12(g) of the Exchange Act:**

Common Stock, $.001 par value
(Title of Class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. **[_]**

Revenues for the fiscal year ended December 31, 2000 totaled $7,038,451.

As of September 27, 2005 the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average of the closing bid and asked prices on such date was approximately $2,542,000.

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At September 28, 2005, the registrant had outstanding 48,619,855 shares of common stock, of which there is only a single class.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

Transitional Small Business Disclosure Format (check one):

Yes __ No X

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**Explanatory Note**

We are filing this Amendment Number 1 to our Annual Report on Form 10-KSB for the year ended December 31, 2000 to restate our financial statements for the year then ended to reflect issues identified during a regulatory review of our financial statements associated with a certain registration statement filed with the SEC on November 22, 2004 on Form SB-2 and which is pending effectiveness as of the date of this filing of Amendment Number 1 to Form 10-KSB for the year ended December 31, 2000. There was no net effect on the consolidated statements of operations or consolidated statements of cash flows for the year ended December 31, 2000 as a result of corrections to the financial statements for the period covered by the report.

During the year ended December 31, 2000, we discontinued the use of a third-party to process rebate claims. Rebate program details were obtained from the third-party processor and a liability was recorded for the unpaid rebate claims monthly, beginning July 1999 and continuing through October 2000. In 2004, we discovered that the unpaid rebate claims were duplicated between reports received from the third-party processor and as a result the liability recorded upon our assumption of the rebate claim fulfillment was also duplicated. We are restating the liability recorded for unpaid rebate claims for the fiscal year end December 31, 2000 as a decrease to rebates payable rather than as an adjustment to the beginning retained earnings of the period commencing January 1, 2003.

We have also restated our financial statements for the year ended December 31, 1999 to reflect issues identified during the restatement of our financial statements for the year ended December 31, 2001 and previously reported as a prior period adjustment on the Form 10-KSB filed for the year ended December 31, 2001. There was no net effect on the consolidated statements of operations or consolidated statements of cash flows for the year ended December 31, 2001 as a result of corrections to the financial statements for the period covered by the report.

During the year ended December 31, 1999, we erroneously recognized revenue associated with inventory retained by The Learning Company ("TLC") as part of a certain amended Asset Purchase Agreement dated June 30, 1999. The amended Asset Purchase Agreement provided for the purchase of all inventories of raw materials, works-in-process, finished goods and materials of Parsons Technology, Inc., including components that were then located at Parsons' Cedar Rapids, Iowa locations. The amended Asset Purchase Agreement indicated that any inventories located at any facility of BMG, TLC's third-party manufacturer, were to be retained by TLC and not included in the purchase. Accordingly, we have restated our consolidated balance sheet as of December 31, 1999 and our consolidated statements of operations, consolidated statements of stockholders' equity, and consolidated statements of cash flows for the year then ended.

A discussion of the restatements for years ended December 31, 2000 and 1999, respectively, are included in Note 18 to the financial statements included in this Amendment Number 1 to Form 10-KSB for the year ended December 31, 2000. Changes have also been made to the following items as a result of the restatement:

Part II Item 6 Management's Discussion and Analysis of Financial Condition or Plan of Operations
Item 7 Financial Statements

This Amendment Number 1 to Form 10-KSB for the year ended December 31, 2000 does not otherwise change or update the disclosures set forth in the Form 10-KSB for the year then ended as originally filed and does not otherwise reflect events occurring after the filing of the Form 10-KSB. For a description of our business and the risks related to our business, please see our Annual Report on Form 10-KSB/A for the year ended December 31, 2004.

## Part II

### Item 6. Management's Discussion and Analysis of Financial Condition or Plan of Operations

The following discussion should be read together with the consolidated financial statements of FindEx.com, Inc. and the notes to the consolidated financial statements included elsewhere in this Form 10-KSB/A.

**THE FOLLOWING DISCUSSION CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS REGARDING FINDEX'S EXPECTATIONS FOR ITS BUSINESS AND ITS CAPITAL RESOURCES. THESE EXPECTATIONS ARE SUBJECT TO VARIOUS UNCERTAINTIES AND RISKS THAT MAY CAUSE ACTUAL RESULTS TO DIFFER SIGNIFICANTLY FROM THESE FORWARD-LOOKING STATEMENTS. FOR A DISCUSSION OF CERTAIN LIMITATIONS INHERENT IN SUCH STATEMENTS, SEE "FORWARD-LOOKING STATEMENTS" BELOW.**

### GENERAL

For a discussion of the history and development of FindEx.com, Inc., see the "General" discussion above. Since our acquisition of the Parsons Church Division from Mattel Corporation, we have expanded our presence in the Christian Booksellers Association ("CBA") marketplace, lost our presence in the secular retail marketplace, re-established our presence in the secular market and expanded that presence to the point that we have a larger presence than before. We have been aggressively pursing our business plan to be the premier provider of Bible study and related products and content to the domestic and international markets through both acquisition of established companies and ongoing internal development of products and Bible-related content, to build upon the Company's existing financial information products and services, and to offer additional technology, products and services that are synergistic to the affinity group FindEx already serves. We have developed two (2) enhanced releases of our flagship product, QuickVerse, one (1) new product targeted mainly to the secular market, QuickVerse Essentials, and one (1) enhanced release of our top financial product, Membership Plus. We are currently researching new opportunities in technology for our existing software titles and expanding our financial product line.

### RESULTS OF OPERATIONS

FindEx.com was an inactive company until the acquisition of the Parsons Church Division from Mattel Corporation in June 1999, and had no revenue and limited expenses from January 1, 1999 through approximately mid-July, 1999. Therefore, the results of operations for fiscal year 2000 are not comparable to the results for the same period in 1999. Much of the discussion of results analyzes operations solely for the twelve months ended December 31, 2000.

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 expected to be the weakest generating only about 33% of our annual sales.

Our Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) for the twelve months ended December 31, 2000 was a loss of approximately $3,159,000. This loss, however, includes several non-cash expenses recorded during the year. We recognized expenses of $555,363 relating to 120,000 common shares issued to IC Capital, LLC for investor relations services, $181,250 relating to 50,000 common shares issued to Genesis Financial Group, LLC for consulting services, $2,171,875 relating to 250,000 common shares issued to MHE, Inc. for consulting services, and $328,571 to Business Investor Services, Inc. relating to 100,000 shares and 100,000 warrants for consulting services. In addition, we increased our reserve for sales returns by $150,720 and our reserve for rebates by $307,760 to reflect higher expected future occurrences due to our expanded presence in the secular retail marketplace.

**Revenues**

Revenues from the sale of software are recognized when the product is shipped. 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. See “Risk Factors - Product returns that exceed our anticipated reserves could result in worse than expected operating results.”



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Gross revenues increased from approximately $6,243,000 for the year ended December 31, 1999 to approximately $7,947,000 for the year ended December 31, 2000. Sales returns and allowances increased from approximately $289,000 for the year ended December 31, 1999 to approximately $792,000 for the year ended December 31, 2000. On March 8, 2000, The Learning Company, a division of Mattel Corporation, canceled the distribution agreement. Realizing the importance of that marketplace to our business plan, we began the process of establishing those relationships on our own behalf. Key distributors in the secular market began placing orders with us on a test basis in early third quarter and by late third quarter, they began placing significant orders in preparation for the Christmas retail season. The full benefit of these efforts was not realized until fourth quarter of 2000 and is continuing to expand. In addition, Mattel Interactive, the direct sales division of Mattel Corporation, made significant reductions in workforce and product lines. This decision on their part resulted in significantly fewer and smaller orders during the last three quarters of 2000. Finally, 1999 gross revenues reflect the release of our top two titles; QuickVerse version 6.0 (QV6) in early October 1999, and Membership Plus version 6.0 in mid November 1999. Gross revenues for 2000 reflect the introduction of one new title, QuickVerse Essentials, in the first quarter, immediately before The Learning Company cancelled the distribution agreement, and the release of QuickVerse version 7.0 (QV7) in mid November 2000. The earlier release of QV6 in 1999 allowed our customers to sell down their initial orders and place reorders in time for the Christmas season. The timing of the release of QV7 did not provide adequate time for the initial orders to be sold through.

The Company experienced larger product returns during the fourth quarter of 2000 than during the same period of 1999. Product returns are typically higher in the secular marketplace than the Christian marketplace. As the distributors place the products into the secular retail channel, they monitor the sell-through rates of those products and generally return quantities of those that aren’t selling as anticipated. This practice contrasts with the Christian marketplace in that the quantities ordered are generally smaller and the retailer is willing to hold on to the products for a longer period of time before making the decision to return. The release of QV7 in November 2000 also increased the quantity of returns of prior versions as stores made shelf space. With our expanded presence in the secular retail market, we increased our reserve for anticipated returns of channel inventory at December 31, 2000.

**COST OF SALES**

Cost of sales consists primarily of royalties to third party providers of intellectual property and the direct costs and manufacturing overhead required to reproduce, package, fulfill and ship the software products. The direct costs and manufacturing overhead decreased from 18.6% of gross revenues in 1999 to 17.2% of gross revenues in 2000 due to opening our new warehouse facility and not depending on a third party to fulfill our retail orders. Royalties to third party providers of intellectual property remained steady at 13% of gross revenues in 1999 and 2000. Royalties are expected to increase in the future due to content additions to QV7. Several new titles were added and the entire content of the QuickVerse Greek Edition was included as basic content of the Deluxe version while continuing to be marketed as a separate product.

**SALES, GENERAL AND ADMINISTRATIVE**

Operating expenses for 2000 reflect a full twelve months of operations whereas 1999 reflects only six months of activity. In addition, operating expenses for 2000 include approximately $3,237,000 in non-cash expenses for stock and warrants issued for services and approximately $243,000 in non-cash increases in reserve accounts (see “RESULTS OF OPERATIONS” above).

Sales expenses reflect an increase in marketing efforts and travel directly related to the establishment and expansion of our secular retail presence. Sales expenses are expected to increase in future periods due to the continued expansion of our sales force and marketing efforts and development of new and enhanced products.

Research and development costs include salaries and benefits of personnel and third parties conducting research and development of software products. Research and development expenses increased in 2000 reflecting a full development period for QV7. The research and development period for QV6 and Membership Plus version 6 was split between FindEx and Mattel Corporation in 1999. Research and development expenses are expected to increase in future periods as we add new products and versions to our product mix.

Costs associated with acquiring Reagan Holdings, Inc. amounted to $150,000 for the year 2000 compared with costs of $86,362 in 1999 associated with the mergers with FindEx Acquisition Corporation and EJH Entertainment, Inc. Acquisition costs are expected to continue as we pursue our business plan for growth by acquiring companies that are synergistic with our current product line and customer base.

**INCOME TAX BENEFITS**

The Company's 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. The Company utilizes different methods and useful lives for depreciating property and equipment. Amortization of the software license agreement is on a straight-line basis over the ten-year term for financial reporting while deductible when paid for income tax purposes. Changes in estimates (reserves) are recognized as expense for financial reporting but are not deductible for income tax purposes.

The Company has recognized a net deferred tax asset whose realization depends on generating future taxable income. We currently have net operating loss carryforwards, for income tax purposes, of approximately $5,263,000. The carryforwards are the result of income tax losses generated in 1996 ($52,000 expiring in 2011), 1997 ($77,000 expiring in 2012), 1998 ($54,000 expiring in 2018), and 2000 ($5,080,000 expiring in 2020). The Company will need to achieve a minimum annual taxable income, before deduction of operating loss carryforwards, of approximately $264,000 to fully utilize the current loss carryforwards. We believe this is achievable, with our current sales levels, through careful expense management and continued introduction of new products and enhanced versions of our existing products. In addition, the deductions currently taken for license agreement payments will expire within the next year and taxable income will be greater than income for financial reporting purposes.

Management expects the deductible temporary differences (reserves) to reverse sometime beyond the next fiscal year, with the exception of accrued bonuses. The future tax benefit associated with those bonuses is not expected to be realized when paid due to the expected utilization of operating loss carryforwards.

**LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2000, FindEx had $4,875,498 in current assets, $5,572,253 in current liabilities and a retained deficit of $2,299,256. We had a net loss of $2,255,193 for the year ended December 31, 2000. Operating expenses for 2000 included approximately $3,237,000 in non-cash expenses for stock issued for services and approximately $458,000 in non-cash increases in reserve accounts (see "RESULTS OF OPERATIONS" above). Positive cash flow from operations for the period was $978,895.

To date, because of a lack of equity capital, FindEx has funded the purchase of the Parsons Church Division primarily through operations. In addition, a dispute with The Learning Company (TLC) over specific performance provisions of the Finished Goods Distribution Agreement has also lead to tight cash flow. Discussions and negotiations are ongoing with TLC and we believe that rapid resolution of the dispute will provide cash flow sufficient to fund operation needs allowing equity capital to fund product development and expansion of our business plan.

Because of tight cash flow conditions, we have concentrated on improving our accounts receivable turnover and have been successful in reducing the average collection period from over 100 days to less than 60. In addition, by taking a pro-active approach to collections by contacting the customer soon after shipment and before the due date, we have been able to keep our bad debts to a minimal level.

Our inventory turnover decreased from approximately 2.8 for 1999 to approximately 2.0 for 2000. Tight cash flow conditions did not allow us to manage our inventory as efficiently and effectively as desired. Turnover for 1999 is somewhat affected by the short period of actual operations. We expect that settlement of the dispute with TLC and the

funding provided through the offering with a private institutional investor will provide sufficient working capital to effectively manage and plan our inventory turnover.

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Pursuant to a note originally issued to a management company in December 1999, the Company received additional funds in January of 2000, in order to fund the continued development and sales of its software products and services. FindEx received $450,000 of additional financing under the note agreement, which is due in the form of a note payable in December of 2001. This note is unsecured and bears an annual interest rate of 9%.

The Company received $703,819, after fees and expenses, from a stock subscription agreement dated April 28, 2000, offered under a Regulation D Section 506 exemption. This agreement was for 362,500 restricted shares of FindEx.com, Inc. Common Stock issued to twenty-nine accredited investors at a price of $2.00 per share. These shares carry piggyback registration rights.

On November 7, 2000, a shareholder loaned a total of $99,000 to FindEx to fund a short-term production need. These notes are secured by accounts receivable and bear an annual interest rate of 15%.

On March 26, 2001, the Company entered into a binding letter of intent with an institutional private equity investor, (the “Letter of Intent”) pursuant to which the Company has the ability to require such investor to purchase up to $15 million of the Company’s common stock from time to time over a period of up to 36 months (the “Term”). The shares will be sold to a private institutional investor at a discount to the market price of the common stock at the time of sale. During any twenty (20) day period during the Term, the Company will have the ability to require such investor to purchase up to $2 million of its common stock, subject to certain limitations based upon our trading volume and share price. FindEx plans to use funds received from this offering to liquidate accounts payable, accrued royalties to content providers, and the aforementioned note agreements. In addition, part of the proceeds will be retained for working capital purposes and part will be used to fund future product development efforts.

The consummation of the financing contemplated by the Letter of Intent is subject to numerous conditions, certain of which are outside our control, including the investor’s completion of its due diligence, our entry into definitive agreements with the investor and the effectiveness with the Securities and Exchange Commission of a registration statement covering the resale of the shares to be issued to such investor, and there can be no assurance that the financing will be consummated on the term described herein, or at all. If FindEx is unable to obtain such additional financing or raise adequate working capital in the amounts desired and on acceptable terms, FindEx may be required to reduce the scope of its presently anticipated activities.

In order to maintain current level of operations, the Company will need to secure additional funding sources to meet its operating expenses. Such funding sources may include, but are not limited to, private placements of common or convertible equities, placement of debt with banks, private or public investors, or other lending institutions.

The Company believes that through a combination of outside sources of capital and revenues generated from sales it will have sufficient sources of capital to meet its operating needs. However, any substantial delays in receipt of or failure to obtain such capital may prevent the Company from operating as a going concern, given its limited revenues and capital reserves.

## CAUTIONARY STATEMENTS AND RISK FACTORS

Several of the matters discussed in this document contain forward-looking statements that involve risks and uncertainties. Factors associated with the forward-looking statements that could cause actual results to differ from those projected or forecast are included in the statements below. In addition to other information contained in this report, readers should carefully consider the following cautionary statements and risk factors.

***We have experienced, and may continue to experience, reduced revenues due to delays in the introduction and distribution of our products.***

We cannot be certain that we will be able to meet our planned release dates for our new software releases. If we cannot release an important new product during the scheduled quarter, our revenues would likely be reduced in that quarter. In the past, we have experienced significant delays in our introduction of some new products. For instance, delays in duplication, packaging and distribution caused our QuickVerse version 7.0 to begin arriving at retailers over the Thanksgiving holiday. As a result, we experienced fewer sales of these products than we would have if the products were in stores before the holiday selling season began, which had a materially adverse effect on our operating results for the 2000 fourth quarter. It is likely in the future that delays will continue to occur and that some new products will not be released in accordance with our internal development schedule or the expectations of public market analysts and investors.

***If we are unable to raise additional funds, we may be required to defer completion of future software updates and reduce overhead significantly.***

We entered into binding letter of intent with a private institutional investor on March 26, 2001 pursuant to which such investor agreed to purchase up to $15 million of our common stock upon certain terms and conditions over a period of thirty-six months. We believe we will need to receive this additional funding in order to continue our product development, increase our sales and fund our working capital requirements. The ability to consummate and draw upon this additional funding is dependent on a number of factors, including the investor's completion of its due diligence, our entry into definitive agreements with the investor and the effectiveness of a registration statement covering the resale of the shares to be issued to such investor, which are outside of our control. If we are unable to draw on the additional funding, then we will need to raise additional funds through the sale of equity or debt securities in private or public financings or through strategic partnerships in order to meet our needs and achieve profitability. There can be no assurance that such alternate funds can be obtained or, if obtained, that they will be available on terms equal to, or more favorable than, the anticipated terms.

***We have a limited operating history upon which you can evaluate our potential for future success.***

We began to introduce our products and services during 1999. Although we have generated revenue from operations, we have a very limited operating history on which you can evaluate our potential for future success. Rather than relying on historical financial information to evaluate our Company, you should evaluate our Company in light of the expenses, delays, uncertainties, and complications typically encountered by early-stage businesses, many of which will be beyond our control. Early-stage businesses commonly face risks such as the following:

- lack of sufficient capital,
- unanticipated problems, delays, and expenses relating to product development and implementation,
- lack of intellectual property,
- licensing and marketing difficulties,
- competition,
- technological changes, and
- uncertain market acceptance of products and services.

***The loss of any of our key executives or our failure to attract, integrate, motivate and retain additional key employees could have a material adverse effect on our business.***

Our success depends to a large degree upon the skills of our senior management team and key employees and upon our ability to identify, hire, and retain additional sales, marketing, technical, and financial personnel. The loss of any of our key executives or the failure to attract, integrate, motivate, and retain additional key employees could have a material adverse effect on our business. We may be unable to retain our existing key personnel or attract and retain additional key personnel. Competition for these personnel in the Internet and technology industry is intense and identifying personnel with experience in this industry is even more difficult. We are in a relatively new market, and there are a limited number of people with the appropriate combination of skills needed to provide the services that our customers require. We depend particularly upon the services of Steven Malone, our Chief Executive Officer and President.

***If we cannot obtain CD-ROM manufacturing and packaging services on a timely basis, we may not be able to timely deliver our CD-ROM and DVD products to distributors and retailers and our sales will be adversely affected.***

We use third party vendors to press CD-ROM disks, assemble purchased product components, and print product packaging and user manuals in connection with the retail distribution of our software. We do not have contractual agreements with any of our third party vendors, which may result in our inability to secure adequate services in a

timely manner. If we cannot obtain adequate manufacturing services, we will not be able to timely produce and deliver our CD-ROM products to distributors and retail stores for ultimate sale to consumers, which will adversely affect our sales and operating results.



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***Product returns that exceed our anticipated reserves could result in worse than expected operating results.***

At the time we ship our products to retailers we will establish reserves, including reserves that estimate the potential for future product returns. Product returns or price protection concessions that exceed our reserves could increase the magnitude of quarterly fluctuations in our operating and financial results. Furthermore, if we incorrectly assess the creditworthiness of customers who receive our products on credit, we could be required to significantly increase the reserves previously established. We cannot be certain that any future write-offs will not occur or that amounts written off will not have a material adverse effect on our business and depress the market price of our common stock. Actual returns to date have been within management's estimates.

***Fluctuations in operating results may result in unexpected reductions in revenue and stock price volatility.***

We operate in an industry that is subject to significant fluctuations in operating results from quarter to quarter, which may lead to unexpected reductions in revenues and stock price volatility. Factors that may influence our quarterly operating results include:

- the introduction or enhancement of software products and technology by us and our competitors;
- our ability to produce and distribute retail packaged versions of our software in advance of peak retail selling seasons; and
- our ability to create appealing content within our software products.

Additionally, a majority of the unit sales for a product typically occurs in the quarter in which the product is introduced. As a result, our revenues may increase significantly in a quarter in which a major product introduction occurs and may decline in following quarters.

***Errors or defects in our software products may cause a loss of market acceptance and result in fewer sales of our products.***

Our products are complex and may contain undetected errors or defects when first introduced or as new versions are released. In the past, we have discovered software errors in some of our new products and enhancements after their introduction into the market. Because our products are complex, we anticipate that software errors and defects will be present in new products or releases in the future. While to date these errors have not been material, future errors and defects could result in adverse product reviews and a loss of, or delay in, market acceptance of our products.

***To develop products that consumers desire, we must make substantial investments in research and development to keep up with the rapid technological developments that are typical in our industry.***

The entertainment software market and the PC industry are subject to rapid technological developments. To develop products that consumers desire, we must continually improve and enhance our existing products and technologies and develop new products and technologies that incorporate these technological developments. We cannot be certain that we will have the financial and technical resources available to make these improvements. We must make these improvements while remaining competitive in terms of performance and price. This will require us to make substantial investments in research and development, often times well in advance of the widespread release of the products in the market and any revenues these products may generate.

***Our proprietary technology may not be adequately protected from unauthorized use by others, which could increase our litigation costs and adversely affect our sales.***

Our ability to compete with other Bible software companies depends in part upon our proprietary technology. Unauthorized use by others of our proprietary technology could result in an increase in competing products and a

reduction in our sales. We rely on trademark, trade secret and copyright laws to protect our technology. We cannot be certain, however, that these precautions will provide meaningful protection from unauthorized use by others. If we must pursue litigation in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others, we may not prevail and will likely make substantial expenditures and divert valuable resources. In addition, many foreign countries' laws may not protect us from improper use of our proprietary technologies overseas. We may not have adequate remedies if our proprietary rights are breached or our trade secrets are disclosed.

***New internet access devices may change the way information is displayed requiring us to change our products.***

Recent increases in the use of internet devices to access inspirational content and the continued development of internet devices as a medium for the delivery of network-based information, content, and services may require us to change our products. Our success depends on our ability to understand the method upon which our search engines operate and our ability to service new and emerging devices to access the Internet, such as browser phones, personal digital assistants, and other wireless devices. To the extent these new Internet access devices change the way that information is displayed to the end user or causes a change in the medium that is searched, we may be required to revise the methodology of our products. We cannot predict the impact that these new devices will have on our services, and any such required revisions may result in loss of revenue and goodwill, increased expenses, and reduced operating margins.

***If our products infringe any proprietary rights of others, a lawsuit may be brought against us that could require us to pay large legal expenses and judgments and redesign or discontinue selling our product.***

We believe that our products do not infringe any valid existing proprietary rights of third parties. Any infringement claims, however, whether or not meritorious, could result in costly litigation or require us to enter into royalty or licensing agreements. If we are found to have infringed the proprietary rights of others, we could be required to pay damages, redesign the products or discontinue their sale. Any of these outcomes, individually or collectively, could have a material adverse effect on our business and financial condition.

***We will face additional risks as we expand into international markets.***

We plan to further expand our services to international markets. Expanding into overseas operations may cost more than we expect. We also may be unsuccessful in expanding our presence in international markets, and we might lose all or part of our investment in those operations. As we expand into international operations, we will be increasingly subject to various risks associated with international operations in addition to the other business risks described in this memorandum. These risks include the following:

- management of a multi-national organization,
- compliance with local laws and regulatory requirements, as well as changes in those laws and requirements,
- restrictions on the repatriation of funds,
- employment and severance issues,
- overlap of tax issues,
- the business and financial condition of any overseas business partners,
- political and economic conditions abroad, and
- the possibility of
  - expropriation or nationalization of assets,
  - supply disruptions, - currency controls,
  - exchange rate fluctuations, or
  - changes in tax laws, tariffs, and freight rates.

Our inability to manage these and other risks effectively could increase our expenses or decrease our opportunities to generate revenue.

**FORWARD-LOOKING STATEMENTS**

This report on Form 10-KSB/A includes “forward-looking statements” within the meaning of SECTION 27A of the Securities Act of 1933 and SECTION 21E of the Securities Exchange Act of 1934. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products and services, anticipated market performance and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, we caution readers that a variety of factors could cause our actual results to differ materially from the anticipated results or other expressed in our forward-looking statements. These risks and uncertainties, many of which are beyond our control, include (i) the sufficiency of our existing capital resources and our ability to raise additional capital to fund cash requirements for future operations, (ii) uncertainties involved in the rate of growth and acceptance of the Internet, (iii) adoption by the Christian community of electronic technology for gathering information, facilitating e-commerce transactions, and providing new products, websites, and services, (iv) volatility of the stock market, particularly within the technology sector, and the ability to use our capital stock as a currency for acquisitions, and (v) general economic conditions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot give any assurance that such expectations reflected in these forward-looking statements will prove to have been correct.

We cannot guarantee any future results, levels of activity, performance or achievements. Except as required by law, we undertake no obligation to update any of the forward-looking statements in this Form 10-KSB/A after the date of this report.

**Item 7. Financial Statements**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of FindEx.com, Inc.:

We have audited the accompanying consolidated balance sheets of FindEx.com, Inc. as of December 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FindEx.com, Inc. as of December 31, 2000 and 1999 and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 16, the Company has a current year operating loss, a negative current ratio and is dependent upon financing to continue operations. These circumstances raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 18 to the consolidated financial statements, there was an error in reporting the Company's unpaid rebate claims and inventory that were discovered by management as a result of a regulatory review. Accordingly, the consolidated financial statements have been restated to correct the errors.

/s/ CHISHOLM & ASSOCIATES
Chisholm & Associates

North Salt Lake, Utah
March 9, 2001 except for notes 3, 8, 10 and 18 dated September 23, 2005

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**Findex.com, Inc.**
**CONSOLIDATED BALANCE SHEETS**
**December 31, 2000 and 1999**

| | | 2000 (Restated) | | 1999 (Restated) |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 21,768 | $ | 147,272 |
| Accounts receivable, trade (Note 3) | | 3,455,983 | | 383,367 |
| Inventories (Note 4) | | 617,902 | | 545,348 |
| Deferred income taxes, net (Note 8) | | 504,998 | | --- |
| Other current assets | | 274,847 | | 13,603 |
| Total current assets | | 4,875,498 | | 1,089,590 |
| Property and equipment, net (Note 5) | | 107,126 | | 97,973 |
| Software license (Note 6) | | 4,279,813 | | 4,858,695 |
| Deferred income taxes, net (Note 8) | | 496,561 | | --- |
| Other assets | | 11,444 | | 9,108 |
| Total assets | $ | 9,770,442 | $ | 6,055,366 |
| **Liabilities and stockholders' equity** | | | | |
| Current liabilities: | | | | |
| Accounts payable, trade | $ | 1,089,343 | $ | 1,153,561 |
| Notes payable (Note 7) | | 749,000 | | --- |
| Accrued royalties | | 1,599,473 | | 728,871 |
| Accrued income taxes | | 39,284 | | 602,000 |
| Reserve for technical support charges | | 224,500 | | 235,300 |
| Accrued expenses | | 178,729 | | 46,279 |
| Reserve for sales returns | | 284,752 | | 134,032 |
| Reserve for rebates | | 380,460 | | 72,700 |
| License fee payable (Note 6) | | 1,026,712 | | 614,034 |
| Total current liabilities | | 5,572,253 | | 3,586,777 |
| Note payable (Note 7) | | --- | | 200,000 |
| Commitments and contingencies (Note 14) | | | | |
| Stockholders' equity (Note 9): | | | | |
| Preferred stock, $.001 par value | | | | |
| 5,000,000 shares authorized | | | | |
| Series A: 15,000 and 20,000 shares issued and outstanding | | 15 | | 20 |
| Series B: 40,000 and 67,500 shares issued and outstanding | | 40 | | 68 |
| Common stock, $.001 par value | | | | |
| 50,000,000 shares authorized | | | | |
| 10,509,609 and 9,072,312 shares issued and outstanding | | 10,509 | | 9,072 |
| Paid-in capital | | 6,486,881 | | 2,248,618 |
| Retained (deficit) | | (2,299,256) | | 10,811 |
| Total stockholders' equity | | 4,198,189 | | 2,268,589 |
| Total liabilities and stockholders' equity | $ | 9,770,442 | $ | 6,055,366 |

*See accompanying notes.*

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**Findex.com, Inc.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**

| **Years Ended December 31** | | **2000 (Restated)** | | 1999 (Restated) |
|---|---|---|---|---|
| | | | | |
| Revenues, net of reserves and allowances | **$** | **7,038,451** | $ | 5,954,207 |
| Cost of sales (Note 18) | | **2,404,436** | | 1,643,741 |
| Gross profit | | **4,634,015** | | 4,310,466 |
| Operating expenses: | | | | |
| Sales and marketing | | **1,579,362** | | 1,039,581 |
| General and administrative | | **6,195,405** | | 1,550,529 |
| Bad debt expense | | **18,024** | | 11,000 |
| Amortization expense | | **585,140** | | 276,879 |
| Depreciation expense | | **26,385** | | 8,427 |
| Total operating expenses | | **8,404,316** | | 2,886,416 |
| Earnings (loss) from operations | | **(3,770,301)** | | 1,424,050 |
| Interest income | | **10,171** | | 4,405 |
| Other income | | **2,873** | | --- |
| Interest expense | | **(58,939)** | | (4,024) |
| Income (loss) before income taxes | | **(3,816,196)** | | 1,424,431 |
| Provision for income taxes (Note 8) | | **1,561,003** | | (602,000) |
| Net income (loss) | **$** | **(2,255,193)** | $ | 822,431 |
| | | | | |
| Net earnings (loss) per share (Note 10): | | | | |
| Basic | **$** | **(0.24)** | $ | 0.11 |
| Diluted | **$** | **(0.24)** | $ | 0.10 |
| | | | | |
| Weighted average shares outstanding (Note 10): | | | | |
| Basic | | **9,791,535** | | 7,767,416 |
| Diluted | | **9,791,535** | | 8,035,085 |

*See accompanying notes.*

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**Findex.com, Inc.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

| | Preferred Stock | | Common Stock | | Paid-In | Retained Earnings | |
|---|---|---|---|---|---|---|---|
| | Series A | Series B | Shares | Amount | Capital | (Deficit) | Total |
| Balance, December 31, 1998 | $ --- | $ --- | 5,157,625 | $ 5,157 | $ 722,621 | $ (811,620) | $ (83,842) |
| April 30 Reverse merger & reorganization | | | | | | | |
| adjustment for minority stockholders | | | | | | | |
| of EJH Entertainment, Inc. | --- | --- | 3,914,687 | 3,915 | (3,915) | --- | --- |
| Preferred Series A shares issued for cash | 20 | --- | --- | --- | 199,980 | --- | 200,000 |
| Preferred Series B shares issued for cash | --- | 68 | --- | --- | 1,349,932 | --- | 1,350,000 |
| Offering cost | --- | --- | --- | --- | (20,000) | --- | (20,000) |
| Net income, December 31, 1999 (Restated) | --- | --- | --- | --- | --- | 822,431 | 822,431 |
| Balance, December 31, 1999 (Restated) | $ 20 | $ 68 | 9,072,312 | $ 9,072 | $ 2,248,618 | $ 10,811 | $ 2,268,589 |
| Issuance of Common Stock for | | | | | | | |
| Acquisition of Reagan Holdings, Inc. | --- | --- | 150,000 | 150 | 551 | --- | 701 |
| Conversion of preferred stock | (5) | (28) | 233,333 | 233 | --- | --- | 200 |
| Preferred Series A common stock dividend | --- | --- | 695 | 1 | 3,496 | (3,541) | (44) |
| Preferred Series B common stock dividend | --- | --- | 17,109 | 17 | 51,160 | (51,333) | (156) |
| Common stock issued for cash | --- | --- | 362,500 | 363 | 724,637 | --- | 725,000 |
| Offering cost | --- | --- | 24,375 | 24 | (21,204) | --- | (21,180) |
| Common stock issued for services | --- | --- | 649,285 | 649 | 3,314,925 | --- | 3,315,574 |
| Common stock warrants issued for services | --- | --- | --- | --- | 106,696 | --- | 106,696 |
| Pre-EJH debt reclassification | --- | --- | --- | --- | 58,002 | --- | 58,002 |
| Net loss, December 31, 2000 (Restated) | --- | --- | --- | --- | --- | (2,255,193) | (2,255,193) |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2000 (Restated)** | **$** | **15** | **$** | **40** | **10,509,609** | **$** | **10,509** | **$** | **6,486,881** | **$** | **(2,299,256)** | **$** | **4,198,189** |

*See accompanying notes.*

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**Findex.com, Inc.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| **Years Ended December 31** | | **2000** | | 1999 |
|---|---|---|---|---|
| | | **(Restated)** | | (Restated) |
| Cash flows from operating activities: | | | | |
| Cash received from customers | **$** | **6,704,383** | $ | 3,339,109 |
| Cash paid to suppliers and employees | | **(5,725,619)** | | (2,780,097) |
| Interest paid | | **(1,424)** | | (4,024) |
| Interest received | | **4,827** | | 4,405 |
| Income taxes paid | | **(3,272)** | | --- |
| Net cash provided by operating activities | | **978,895** | | 559,393 |
| Cash flows from investing activities: | | | | |
| Acquisition of property, plant and equipment | | **(35,538)** | | (106,400) |
| Cash received in merger with Reagan Holdings, Inc. | | **701** | | --- |
| Cash paid for note receivable | | **(240,000)** | | --- |
| Website development costs | | **(8,343)** | | --- |
| Cash paid for software license agreement | | **(2,073,788)** | | (2,035,074) |
| Deposits paid | | **(250)** | | (859) |
| Net cash (used) by investing activities | | **(2,357,218)** | | (2,142,333) |
| Cash flows from financing activities: | | | | |
| Proceeds from issuance of notes payable | | **549,000** | | 200,000 |
| Proceeds from issuance of stock | | **703,819** | | 1,530,000 |
| Net cash provided by financing activities | | **1,252,819** | | 1,730,000 |
| Net increase (decrease) in cash and cash equivalents | | **(125,504)** | | 147,060 |
| Cash and cash equivalents, beginning of year | | **147,272** | | 212 |
| Cash and cash equivalents, end of year | **$** | **21,768** | $ | 147,272 |
| | | | | |
| Reconciliation of net income (loss) to cash flows from operating activities: | | | | |
| Net income (loss) | **$** | **(2,255,193)** | $ | 822,431 |
| Adjustments to reconcile net income (loss) to net cash | | | | |
| provided by operating activities: | | | | |
| Stock and warrants issued for services | | **3,422,270** | | --- |
| Provision for bad debts | | **18,024** | | 11,000 |
| Depreciation & amortization | | **611,525** | | 285,306 |
| Change in assets and liabilities: | | | | |
| (Increase) in accounts receivable | | **(604,174)** | | (2,879,457) |
| (Increase) in inventories | | **(72,554)** | | (545,348) |
| (Increase) in prepaid expenses | | **(21,244)** | | (13,603) |
| Increase in accrued royalties | | **870,602** | | 728,871 |
| Increase (decrease) in accounts payable | | **(6,216)** | | 1,063,417 |
| Increase (decrease) in income taxes payable | | **(730,716)** | | 46,169 |
| Increase (decrease) in deferred taxes | | **(833,559)** | | 555,831 |
| Increase in other liabilities | | **580,130** | | 484,776 |
| Net cash provided by operating activities | **$** | **978,895** | $ | 559,393 |

*See accompanying notes.*

**FindEx.com, Inc.**
**Notes to Consolidated Financial Statements**
**December 31, 2000**

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

FindEx.com, Inc. (“FindEx” or the “Company”) was incorporated under the laws of the State of Delaware on December 26, 1995, as FinSource, Ltd. In April 1999, the Company merged with FINdex Acquisition Corporation (FAC), a Delaware corporation, in a stock for stock transaction. On April 30, 1999, the Company was acquired by EJH Entertainment, Inc. (EJH), a Nevada corporation, in a stock for stock transaction and the name of the Company was changed to FindEx.com, Inc. Both the merger with FAC and the acquisition by EJH were treated as reorganization mergers with the surviving Company and accounting history being that of FinSource (the accounting acquirer).

FindEx is a retail, wholesale and Internet supplier of software products to business and religious organizations and individuals. In July 1999, the Company completed an exclusive license agreement with Parsons Technology, Inc., a subsidiary of TLC, formerly Mattel Corporation, for the Parsons Church Division of Mattel. In so doing, FindEx obtained the exclusive right to market, sell and continue to develop several Bible study software products. The Company develops and publishes church and Bible study software products designed to simplify Biblical research and streamline church office tasks.

### Accounting Method

The Company recognizes income and expenses on the accrual basis of accounting.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after eliminations.

### Use of Estimates

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

### Concentrations

Financial instruments that potentially subject FindEx to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. FindEx places its cash and cash equivalents at well-known, quality financial institutions. At times, cash balances held at financial institutions were in excess of federally insured limits. FindEx sells a majority of its products to end-users through distributors, Christian book stores, and telemarketing efforts. Although FindEx attempts to prudently manage and control accounts receivable and performs ongoing credit evaluations in the normal course of business, the Company generally requires no collateral on its product sales.

During the years ended December 31, 2000 and 1999, the Company had two major customers that individually accounted for 10% or more of the annual sales. Sales to Customer A accounted for 41% and 69%, respectively, and sales to Customer B accounted for 14% and 0%, respectively, of consolidated revenue for the years ended December 31, 2000 and 1999. Accounts receivable, net of offsets, relating to Customer A and Customer B, were $2,867,293 and $426,432 as of December 31, 2000, respectively.



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During the years ended December 31, 2000 and 1999, five vendors provided purchases individually of 10% or more of the total product and material purchases as follows: Vendor A accounted for 17% and 47%, respectively, Vendor B accounted for 3% and 14%, respectively, Vendor C accounted for 28% and 12%, respectively, Vendor D accounted for 13% and 6%, respectively, and Vendor E accounted for 12% and 0%, respectively. Accounts payable relating to Vendor A, Vendor B, Vendor C, Vendor D, and Vendor E, were $0, $101,090, $113,860, $27,646, and $162,081, respectively, as of December 31, 2000.

**Royalty Agreements**

FindEx has entered into certain agreements whereby it is obligated to pay royalties for content of software published. FindEx generally pays royalties based on a percentage of sales on respective products or on a fee per unit sold basis. The Company expenses software royalties as product costs during the period in which the related revenues are recorded.

**Cash and Cash Equivalents**

FindEx considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Inventory**

Inventory 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.

**Software Development Costs**

Statement of Financial Accounting Standards (“SFAS”) No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, provides for the capitalization of certain software development costs once technological feasibility is established. Capitalized costs are then amortized on a straight-line basis over the estimated product life, or on the ratio of current revenues to total projected product revenues, whichever is greater. Through December 31, 2000, the Company believes its process for developing software was essentially completed concurrent with the establishment of technological feasibility, and accordingly, no software development costs have been capitalized to date. For 2000, research and development costs incurred and charged to expense were $118,600.

**Property and Equipment**

Property and equipment are recorded at cost. Furniture, fixtures and computer equipment are depreciated over five years using the straight-line method. Software is depreciated over three years using the straight-line method. Expenditures for maintenance, repairs and other renewals of items are charged to expense when incurred.

**Accounting for Long-Lived Assets**

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

**Revenue Recognition**

The Company recognizes revenue from product sales at shipment provided that collection of the resulting receivable is probable, in accordance with SOP 97-2, *Software Revenue Recognition*. Software products are sold separately, without future performance such as upgrades or maintenance, and are sold with postcontract customer support (PCS) services. PCS revenue is recognized on delivery of the software and all associated costs are accrued. The Company maintains an allowance for potential credit losses and an allowance for anticipated returns on products sold to distributors, Christian bookstores, and direct customers. The allowance for sales returns is estimated based on a calculation of forecast sales to the end-user in relation to estimated current channel inventory levels.

**Cooperative Advertising**

Advertising costs are charged to operations as incurred. The Company reimburses certain qualified customers for a portion of the advertising costs related to their promotion of the Company's products. The liability for reimbursement is accrued at the time the advertisement occurs. For 2000 and 1999, cooperative advertising expense totaled approximately, $206,000, and $63,000, respectively.

**Stock-based Compensation**

As permitted under SFAS No. 123, *Accounting for Stock-based Compensation*, the Company has elected to follow the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*, in accounting for stock-based awards to employees (see Note 11) and, accordingly, does not recognize compensation cost.

**Income Taxes**

The Company utilizes SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

**Earnings (Loss) Per Share**

The Company follows SFAS No. 128, *Earnings Per Share*, to calculate and report basic and diluted earnings per share ("EPS"). Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by giving effect to all dilutive potential common shares that were outstanding during the period. For the Company, dilutive potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants for all periods, convertible notes payable and the incremental common shares issuable upon the conversion of convertible preferred stock.

In the case of a net loss, it is assumed that no incremental shares would be issued because they would be anti-dilutive. In addition, certain options and warrants are considered antidilutive because the exercise prices were above the average market price during the period. Anti-dilutive shares are not included in the computation of diluted earnings per share, in accordance with SFAS No. 128. Diluted EPS for the year ended December 31, 1999, has been restated in conformity with SFAS No. 128.

**Comprehensive Income (Loss)**

The Company has adopted SFAS No. 130, *Reporting Comprehensive Income*. SFAS No. 130 establishes standards of reporting and displaying comprehensive income and its components of net income and “other comprehensive income” in a full set of general-purpose financial statements. “Other comprehensive income” refers to revenues, expenses, gains and losses that are not included in net income, but rather are recorded directly in stockholders’ equity. The adoption of this Statement had no impact on the Company’s net income or loss or stockholders’ equity.

**Fair Value of Financial Instruments**

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such instruments.

**Reclassification**

Certain amounts in the accompanying 1999 consolidated financial statements have been reclassified in order to conform to the presentation of the 2000 consolidated financial statements. Net cash provided by operating activities decreased from $2,915,533 to $559,393 and net cash used by investing activities decreased from $4,498,473 to $2,142,333 as a result of separating operating transactions previously offset against cash paid for software license agreement.

**NOTE 2 - MERGERS AND ACQUISITIONS**

**EJH Entertainment, Inc.**

On April 30, 1999, EJH Entertainment, Inc. (EJH) (a public company) entered into an agreement and Plan of Reorganization with FindEx.com, Inc., (FindEx) (a private company). The agreement provided for the merger of EJH into FindEx to be treated as a reverse merger, thus making FindEx the accounting survivor. Pursuant to the agreement, EJH issued 5,157,625 hares of common stock to the shareholders of FindEx for all shares of their company. Because the historical financial information in these financial statements prior to the reverse merger (April 30, 1999) is that of the accounting acquirer (FindEx), a reorganization adjustment has been shown on the books at April 30, 1999, recording the shares held by the minority shareholders of EJH. The 5,157,625 shares issued to the shareholders of FindEx have been shown retroactively to the beginning of 1998, as though a stock split had occurred. The management of EJH resigned and the management and Board of FindEx filled the vacancy. This business combination was accounted for using the purchase method. EJH had no assets or liabilities and was an inactive public company.

**Reagan Holdings, Inc.**

On March 7, 2000, the Company acquired Reagan Holdings, Inc., ("Reagan") a Delaware corporation. The Company issued 150,000 shares of common stock for all the outstanding stock of Reagan. The purchase was recorded at a value of $701. Reagan had assets of $701 and no liabilities at December 31, 1999 and was an inactive public company. The operating history of Reagan is included in the consolidated numbers of the Company effective January 1, 2000. The acquisition was recorded using the purchase method of a business combination.

**NOTE 3 - ACCOUNTS RECEIVABLE (Restated)**

At December 31, 2000 and 1999, accounts receivable consisted of the following (see Note 1 - Concentrations):

| | **2000** | 1999 |
|---|---|---|
| Trade receivables | **$ 3,477,983** | $ 394,367 |
| Less: Allowance for doubtful accounts | **22,000** | 11,000 |
| | **$ 3,455,983** | $ 383,367 |

**NOTE 4 - INVENTORIES**

At December 31, 2000 and 1999, inventories consisted of the following:

| | **2000** | 1999 |
|---|---|---|
| Finished goods | **$ 435,180** | $ 326,598 |
| Raw materials | **182,722** | 218,750 |
| | **$ 617,902** | $ 545,348 |

**NOTE 5 - PROPERTY AND EQUIPMENT, net**

At December 31, 2000 and 1999, property and equipment consisted of the following:

| | **2000** | 1999 |
|---|---|---|
| Office furniture and fixtures | **$ 33,287** | $ 51,460 |
| Office equipment | **14,501** | --- |
| Warehouse equipment | **28,923** | --- |
| Computer software | **16,731** | 14,833 |
| Computer equipment | **48,496** | 40,107 |
| | **141,938** | 106,400 |
| Less: Accumulated depreciation | **34,812** | 8,427 |
| | **$ 107,126** | $ 97,973 |

**NOTE 6 - SOFTWARE LICENSE AGREEMENT**

As indicated in Note 1, in July 1999, the Company completed an exclusive license agreement with Parsons Technology, Inc., a subsidiary of TLC, for the Parsons Church Division. In so doing, FindEx obtained the exclusive right to market, sell, and continue to develop several top-selling Bible study software products including the Zondervan NIV Bible and QuickVerse. The agreement calls for a non-refundable license fee in the amount of $5,000,000, payable in installments of: (1) $1,000,000 upon execution of the agreement, (2) $500,000 on August 1, 1999, (3) $500,000 on September 7, 1999, (4) $1,500,000 on December 7, 1999, (5) $1,000,000 on March 7, 2000, and (6) $500,000 on June 7, 2000. The agreement carries a ten-year term from the date of execution and also includes a five-year non-compete provision (see Note 1 - Concentrations and Notes 15 and 16). The license is amortized over the term using the straight-line method.

**NOTE 7 - NOTES PAYABLE**

At December 31, 2000 and 1999, notes payable consisted of the following:

| | **2000** | 1999 |
|---|---|---|
| Note payable to a corporation, due December 14, 2001, with interest at 9%. Unsecured. | **$ 650,000** | $ 200,000 |
| Note payable to a corporation, due November 6, 2001, with interest at 15%. Secured by accounts receivable and convertible, at the option of the holder, into 50,000 common shares. | **33,000** | --- |
| Note payable to a corporation, due November 6, 2001, with interest at 15%. Secured by accounts receivable and convertible, at the option of the holder, into 50,000 common shares. | **33,000** | --- |
| Note payable to a corporation, due November 6, 2001, with interest at | **33,000** | --- |

| | | | | |
|---|---|---|---|---|
| 15%. Secured by accounts receivable and convertible, at the option of the holder, into 50,000 common shares. | | | | |
| | **$** | **749,000** | $ | 200,000 |

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**NOTE 8 - INCOME TAXES (Restated)**

The provision (benefit) for taxes on income for the years ended December 31 consisted of the following:

| | **2000** | 1999 |
|---|---|---|
| Current: | | |
| Federal | $ **(3,272)** | $ 3,272 |
| State | **(341)** | 42,897 |
| | **(3,613)** | 46,169 |
| Deferred: | | |
| Federal | **(1,244,013)** | 433,658 |
| State | **(313,377)** | 122,173 |
| | **(1,557,390)** | 555,831 |
| Total tax provision (benefit) | $ **(1,561,003)** | $ 602,000 |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2000, are as follows:

| | |
|---|---|
| Current Deferred Tax Assets: | |
| Net operating loss carryforward | $ 210,000 |
| Reserve for sales returns | 119,596 |
| Reserve for technical support costs | 94,290 |
| Reserve for rebates payable (restated) | 104,849 |
| Other, net | 15,714 |
| | 544,449 |
| Valuation allowance for deferred tax assets (restated) | (39,451) |
| Net Current Deferred Tax Assets | 504,998 |

| | |
|---|---|
| Non-Current Deferred Tax Assets: | |
| Software license fees | $ (1,356,382) |
| Net operating loss carryforward (restated) | 1,884,391 |
| Other, net | (18,490) |
| | 509,519 |
| Valuation allowance for deferred tax assets | (12,958) |
| Net Non-Current Deferred Tax Assets | 496,561 |
| Net Deferred Tax Assets | $ 1,001,559 |

The valuation allowance for deferred tax assets was increased by $52,409 during the year ended December 31, 2000.

At December 31, 2000, the Company has available net operating loss carryforwards of approximately $5,263,000 for federal income