

Edgar Filing: FINX GROUP INC - Form 10QSB

FINX GROUP INC  
Form 10QSB  
November 19, 2003

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 September 30, 2003

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)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-2854686  
(IRS Employer  
Identification Number)

21634 Club Villa Terrace, Boca Raton, Florida  
(Address of principal executive offices)

33433  
(Zip Code)

(561) 447-6612  
(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   
No

As of November 18, 2003, there are 749,715,948 shares of the par value  
\$.01 common stock outstanding.

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

Indicate by checkmark whether the Registrant is an accelerated filer as  
defined in Rule 12b-2 of the Securities and Exchange Act of 1934. Yes  No

Page 1

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

Three Months Ended September 30,

2003  
-----

Edgar Filing: FINX GROUP INC - Form 10QSB

Revenues	\$	20,000	\$
-----			
Operating expenses		298,000	
Compensation expense adjustment from executive stock appreciation rights		-	(2,
Compensation expense from stock grants and the issuance of stock options and stock purchase warrants		1,619,000	
-----			
Total operating expenses		1,917,000	(1,
-----			
Operating income (loss)		(1,897,000)	1,
Interest expense, related parties		(27,000)	
-----			
Income (loss) from continuing operations		(1,924,000)	1,
Gain on disposal of discontinued segments		-	1,
Income from operations of discontinued segments		-	
-----			
Net income (loss)	\$	(1,924,000)	\$ 2,
-----			
Income (loss) allocated to common stock- basic:			
Income (loss) from continuing operations	\$	(1,924,000)	\$ 1,
Less dividends on preferred shares		(31,000)	
-----			
Income (loss) from continuing operations attributable to common stockholders		(1,955,000)	1,
Gain on disposal of discontinued segments		-	1,
Income from operations of discontinued segments		-	
-----			
Net income (loss) available to common stockholders	\$	(1,955,000)	\$ 2,
-----			
Income (loss) allocated to common stock - diluted:			
Income (loss) from continuing operations attributable to common stockholders - basic	\$	(1,955,000)	\$ 1,
Assumed reduction of dividends on preferred shares		-	
-----			
Income (loss) from continuing operations attributable to common stockholders		(1,955,000)	1,
Gain on disposal of discontinued segments		-	1,
Income (loss) from operations of discontinued segments		-	
-----			
Net income (loss) available to common stockholders	\$	(1,955,000)	\$ 2,

See Notes to Unaudited Consolidated Interim Financial Statements.

continued

Edgar Filing: FINX GROUP INC - Form 10QSB

Three Months Ended September 30,

2003

Weighted average shares outstanding:

Basic	580,429,830	49,
Assumed exercise of warrants	-	5,
Assumed conversion of Series B Preferred Stock	-	68,
Assumed conversion of Series C Preferred Stock	-	4,
Assumed conversion of Series D Preferred Stock	-	16,
Diluted	580,429,830	144,

Income (loss) per shares of common stock - basic:

Income (loss) from continuing operations	(\$0.00) *
Gain on disposal of discontinued segments	-
Income (loss) from operations of discontinued segments	-
Net income (loss)	(\$0.00) *

Income (loss) per share of common stock - diluted:

Income (loss) from continuing operations	(\$0.00) *
Gain on disposal of discontinued segments	-
Income (loss) from operations of discontinued segments	-
Net income (loss)	(\$0.00) *

See Notes to Unaudited Consolidated Interim Financial Statements.

\* less than \$.005

Page 3

The Finx Group, Inc. and Subsidiaries

Unaudited Consolidated Statements of Operations

Nine months ended September 30,

2003

Revenues	\$ 32,000	\$
Operating expenses	1,472,000	2,
Compensation expense from stock grants and the issuance of stock options and stock purchase warrants	3,037,000	
Total operating expenses	4,509,000	2,
Operating loss	(4,477,000)	(2,
Other income (expense)	1,000	
Interest expense, related parties	(80,000)	
Loss from continuing operations	(4,556,000)	(2,

Edgar Filing: FINX GROUP INC - Form 10QSB

Gain (loss) on disposal of discontinued segments	(9,000)	1,
Income (loss) from operations of discontinued segments	13,000	(
-----		
Net loss	\$ (4,552,000)	\$ (1,
-----		
Loss allocated to common stock- basic and diluted:		
Loss from continuing operations	\$ (4,556,000)	\$ (2,
Less dividends on preferred shares	(96,000)	(
-----		
Loss from continuing operations attributable to common stockholders	(4,652,000)	(2,
Gain (loss) on disposal of discontinued segments	(9,000)	1,
Income (loss) from operations of discontinued segments	13,000	(
-----		
Net loss available to common stockholders	\$ (4,648,000)	\$ (1,
-----		
Weighted average shares outstanding	353,536,399	47,
-----		
Loss per common share - basic and diluted:		
Loss from continuing operations	(\$0.01)	
Gain (loss) from disposal of discontinued operations	(0.00)*	
Income (loss) from operations of discontinued segments	0.00*	
-----		
Net loss	(\$0.01)	
-----		

See Notes to Unaudited Consolidated Interim Financial Statements.

\* less than \$.005

Page 4

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

As of September 30, 2003

ASSETS

Prepaid expense	\$	9,000
Total current assets		9,000
-----		
Furniture, Fixtures and Equipment:		
Furniture, fixtures and equipment, cost		90,000
Less accumulated depreciation		(90,000)
-----		
Net furniture, fixtures and equipment		-
-----		
Other assets:		
Exclusive license agreement, net (see Note 4)		2,688,000
-----		
TOTAL ASSETS	\$	2,697,000
-----		

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

### LIABILITIES AND CAPITAL DEFICIENCY

#### CURRENT LIABILITIES:

Accounts payable	\$	1,212,000
Accrued payroll and payroll taxes, executive officers		2,547,000
Notes payable executive officers, including interest		1,516,000
Notes payable, related parties, including accrued interest		297,000
Other current liabilities		447,000
Current liabilities of discontinued segments (see Note 8)		1,211,000

---

Total current liabilities		7,230,000
---------------------------	--	-----------

---

Commitments and contingencies (see Note 9)

---

#### CAPITAL DEFICIENCY

---

Preferred stock, \$.01 par value; 1,000,000 shares authorized; 1,000 Series A preferred shares issued and outstanding; 15,540 Series B preferred shares issued and outstanding as of September 30, 2003		1,554,000
Common stock, \$.01 par value; 750,000,000 shares authorized; 742,715,948 shares issued and outstanding as of September 30, 2003		7,427,000
Additional paid-in capital, common stock		26,631,000
Accumulated deficit		(40,145,000)

---

Capital deficiency		(4,533,000)
--------------------	--	-------------

---

TOTAL LIABILITIES AND CAPITAL DEFICIENCY	\$	2,697,000
--	----	-----------

---

See Notes to Unaudited Consolidated Interim Financial Statements.

Page 5

---

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

---

Nine Months Ended September 30,		2003
---------------------------------	--	------

---

#### CASH FLOWS - OPERATING ACTIVITIES:

Loss from continuing operations	\$ (4,556,000)	\$ (2,111,000)
Gain (loss) on disposal of discontinued segments	(9,000)	1,000

---

	(4,565,000)	(1,110,000)
--	-------------	-------------

Adjustments to reconcile loss from continuing operations to net cash - continuing operations:

Depreciation and amortization	184,000	
Non cash expense from stock grants and the issuance of stock options and stock purchase warrants	3,037,000	
(Gain) loss on disposal of discontinued segments	9,000	(1,000)
Other operating adjustments	-	
Changes in assets and liabilities:		

Edgar Filing: FINX GROUP INC - Form 10QSB

Prepaid expense	(9,000)	
Other assets	-	
Accounts payable	(87,000)	
Accrued payroll	579,000	
Accrued interest expense, related parties	80,000	
Other current liabilities	(24,000)	
-----		
Net cash-continuing operations	(796,000)	(1,
-----		
Income (loss) from discontinued operations	13,000	(
Adjustments to reconcile loss from operations of discontinued segments to net cash - discontinued operations:		
Depreciation and amortization	-	
Non cash expense from the issuance of stock options	-	
Reserve for obsolete and slow moving inventory	-	
Impairment charge	-	
Bad debt expense	-	
Net change in other assets and liabilities	(15,000)	
-----		
Net cash-discontinued operations	(2,000)	
-----		
Net cash - operating activities	(798,000)	(
-----		
CASH FLOWS - INVESTING ACTIVITIES:		
Other investing activities	-	
-----		
Net cash - investing activities	-	
-----		
CASH FLOWS - FINANCING ACTIVITIES:		
Loans from related parties	668,000	
Repayments on related party loans	(222,000)	
Proceeds from exercise of stock options	352,000	
Proceeds from exercise of stock purchase warrants	-	
-----		
Net cash - financing activities	798,000	
-----		
Net change in cash	-	
Cash - Beginning of period	-	
-----		
Cash - End of period	\$	- \$
-----		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$	- \$
-----		
Income Taxes	\$	- \$
-----		

See Notes to Unaudited Consolidated Interim Financial Statements.

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

The accompanying unaudited consolidated financial statements of The Finx Group, Inc. and its subsidiaries consisting of Secured Portal Systems, Inc., and Granite Acquisition Corp., (collectively 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 of America for complete financial statements. In the opinion of management, these interim financial statements include all adjustments necessary in order to make the financial 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 as amended for the year ended December 31, 2002. Certain reclassifications were made to prior year amounts to conform to the current year presentation.

The Company has not generated any revenue from its principal business activity. The Company's primary source of future revenues, if any, is expected to be derived from its exclusive license agreement with GIL Security Systems, Inc. ("GIL"). GIL, a subsidiary of Georal International, Ltd., holds world-wide rights related to the intellectual property related to the GIL security systems pursuant to a license from Alan J. Risi, the controlling owner of both GIL and Georal. 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. The Georal license gives the Company distribution rights for the sale of all of the Georal security products, including all models of the GIL-2001 security door, to a broad range of customers (see Note 4).

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 generated only nominal revenue from continuing operations and has a history of net losses and as of September 30, 2003 has a working capital deficiency of \$7.2 million and a capital deficiency of \$4.5 million. During 2003 and 2002 the Company was dependent on financial support from its controlling stockholder, Trinity Group-I, Inc. ("Trinity"), and other related parties. In addition, during 2003 and 2002, the Company has compensated its employees and key consultants with stock options and stock grants of which some were registered on Form S-8. Management is currently seeking additional financing; however, the Company can give no assurances such financing will be consummated, that the terms of any financing will be reasonable or that the amount raised will be adequate to meet the Company's current and ongoing obligations. The continuation of the Company as a going concern is dependent upon its ability both to obtain financing and to generate revenue and income from the sale of portals (see Note 4). 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, 2002 Form 10-KSB as amended.

In preparing the consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date

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

of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Some of the more significant estimates include the carrying value of the Company's exclusive license and its amortization.

Page 7

Certain long-term assets of the Company are reviewed when changes in circumstances require as to whether their carrying value has become impaired, pursuant to guidance established in Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations [undiscounted and without interest charges]. If impairment is deemed to exist, the asset will be written down to fair value. Management also reevaluates the period of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of September 30, 2003, management expects those assets related to its continuing operations to be fully recoverable.

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"), which clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company expects that the adoption of SFAS 149 will not have a significant impact on its financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"), which established standards for how an issuer classifies and measures certain financial instruments. SFAS 150 requires that an issuer classify certain financial instruments as liabilities (or assets in some circumstances) that were previously classified as equity. Financial instruments which embody an unconditional obligation requiring the issuer to redeem or repurchase it by the transfer of assets or by issuing a variable number of its equity shares must be classified as a liability. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company expects that the adoption of SFAS 150 will not have a significant impact on its financial statements.

### 3. Supplemental Disclosure of Non Cash Investing and Financing Activities

For the Nine Months Ended September 30, 2002  
-----

On various dates during the nine months ended September 30, 2003, the company issued stock options, stock purchase warrants and stock grants resulting in non cash stock compensation expense of \$3,037,000 (see Note 7).

On March 17, 2003, the Company issued to Grazyna B. Wnuk, an officer and director, 9,006,976 shares of its common stock in payment for expenses of \$34,000, which she paid on behalf of the Company, the approximate value of the shares issued.

For the Nine Months Ended September 30, 2003



-----

On various dates during the nine months ended September 30, 2002, the company issued stock options and stock purchase warrants resulting in non cash stock compensation expense of \$171,000 (see Note 7).

On February 21, 2002, the Company issued 40,000 shares of its series D preferred stock, convertible into 4,000,000 shares of 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 common stock, in consideration for two amendments to the Company's exclusive licensing agreement with GIL Security Systems, Inc. These shares were issued to the sole stockholder of GIL Security Systems, Inc. Using the Black-Scholes option valuation formula, the two series of convertible preferred stock were valued at an aggregate of \$1,100,000.

Page 8

On April 8, 2002, the Company entered into a settlement agreement with a creditor pursuant to which the Company settled a \$17,000 obligation by the issuance of 353,844 shares of common stock valued at \$17,000

#### 4. Exclusive License Agreement

On September 13, 1999, the Company obtained the Georal license which gives the Company distribution rights for the sale of Georal security products to a broad range of customers. The Georal security products' include all models of the Georal security door. The categories of customers covered by the Georal license 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, and certain corporations. The Georal license commenced on September 1, 1999 and, as amended, expires on August 31, 2014.

As an inducement to obtain the Georal license and in exchange for 1,000,000 common stock shares of GIL, in September 1999, the Company issued to Alan J. Risi preferred shares which were converted into 1,049,874 shares of common stock in July of 2002.

On December 11, 2001, the GIL 2001 security door received certification by the U.S. State Department. On February 21, 2002, the Georal license was amended to expand the categories of customers for which the Company has the exclusive marketing right to include all financial institutions around the world with the Company also receiving a right of first refusal to be the exclusive distributor for sales to any governmental body which the Company does not have exclusive marketing rights. As consideration for the amendment entered into on February 21, 2002, the Company issued to Alan Risi 40,000 shares of series D 2% convertible preferred stock that was converted into 4,000,000 million shares of common stock. On May 16, 2002, the Georal license for the Georal security systems was further amended whereby the exclusive distribution agreement was expanded to give the Company additional exclusive world wide sales and marketing rights. As consideration for the amendment entered into on May 16, 2002, the Company issued to Alan Risi 60,000 shares of its series C 2% convertible preferred stock which were converted into 6,000,000 shares of common stock. On September 9, 2002, the Georal license was further expanded to provide the Company with additional exclusive marketing rights. As consideration for this

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

amendment, the Company issued to Alan Risi 100,000 shares of its series C preferred stock which were converted into 10,000,000 shares of common stock. On October 16, 2002, the Company issued to Alan Risi an additional 250,000 shares of its series C preferred stock for an amendment to the Georal license which provided the Company with participation rights in certain maintenance revenue generated by Georal and extended the term of the agreement an additional five years, to September 18, 2014. Using the Black-Scholes option valuation formula, the convertible preferred stock was valued at \$2.98 million.

### 5. Executive Debt Deferrals

Effective September 30, 2002, Lewis S. Schiller, the Company's chief executive officer and chairman of the board, agreed to defer payment of his salary until January 1, 2004, and Trinity, the Company's largest stockholder which is wholly owned by Mr. Schiller, agreed to defer, until January 1, 2004, payment of accrued interest on notes payable to Trinity and payment of accrued dividends on preferred stock held by Trinity. As of September 30, 2003, such amounts are presented as current liabilities.

### 6. Basic and Diluted Loss Per Share

Basic and diluted per share results for all periods presented were computed based on the net earnings or loss allocated to the common stock for the respective periods. The weighted average number of shares of common stock outstanding during the period was used in the calculation of basic earnings (loss) per share. In accordance with FAS 128, "Earnings Per Share," the weighted average number of shares of common stock used in the calculation of diluted per share amounts is adjusted for the dilutive effects of

Page 9

stock options based on the treasury stock method and the assumed conversion of convertible preferred stock only if an entity records earnings from continuing operations (i.e., before discontinued operations), as such adjustments would otherwise be anti-dilutive to earnings per share from continuing operations. As a result of the Company recording a loss from continuing operations for the nine months ended September 30, 2003, the average number of common shares used in the calculation of diluted loss per share have not been adjusted for the effects of 204,861,500 potential common shares from unexercised stock options and warrants and 740,000,000 potential common shares from unconverted preferred shares. Such warrants, options, and shares of convertible preferred stock may dilute earnings per share in the future (see Notes 7, 10, and 11.).

### 7. Stock-based Compensation

On January 2, 2003, the Company issued to a non-affiliated consultant, a warrant to purchase 5,000,000 shares of common stock at an exercise price of \$.04 per share resulting in stock compensation expense of \$100,000. The fair value of the Company's common stock at the date of issuance of the warrant was \$.021 per share.

On January 17, 2003, the Company issued to non-affiliated consultants, stock options to purchase 17,604,168 shares of common stock at an exercise price of \$.02 per share resulting in stock compensation expense of \$366,000. All of such options were exercised on January 17, 2003. The fair value of the Company's common stock at the date of issuance of the options was \$.024 per share.

On February 28, 2003, the Company issued to a non-affiliated consultant a warrant to purchase 2,200,000 shares of common stock at an exercise price of \$.04 per share and warrant to purchase 2,800,000 shares of common stock at an

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

exercise price of \$.01 per share. The fair value of the Company's common stock at the date of issuance of the warrants was \$.01 per share and the stock compensation expense resulting from the issuance of such warrants was \$46,000.

On March 17, 2003, the Company granted 100,000,000 shares of common stock of which 85,000,002 shares were issued to non-affiliated consultants, resulting in stock compensation expense of \$425,000, and 14,999,998 shares were issued to Grazyna B. Wnuk, the Company's vice-president and a director, resulting in stock compensation expense of \$75,000.

On June 1, 2003, the Company issued to a non-affiliated consultant, a warrant to purchase 100,000,000 shares of common stock at an exercise price of \$.01 per share resulting in stock compensation expense of \$271,000. The fair value of the Company's common stock at the date of issuance of the warrant was \$.006 per share.

On June 2, 2003, the Company issued to an investor for \$5,000, a warrant to purchase 50,000,000 shares of common stock at an exercise price of \$.01 per share resulting in stock compensation expense of \$135,000. The fair value of the Company's common stock at the date of issuance of the warrant was \$.006 per share.

On July 25, 2003, the Company issued 138,500,000 shares of its common stock pursuant to stock grant rights of which 116,500,000 shares were issued to non-affiliated consultants, resulting in stock compensation expense of \$594,000, 10,000,000 shares were issued to Lewis S. Schiller, resulting in stock compensation expense of \$51,000, and 12,000,000 shares were issued to Grazyna B. Wnuk, resulting in stock compensation expense of \$61,000.

On August 27, 2003 the Company issued 47,499,000 shares of its common stock pursuant to stock grant rights of which 37,499,000 were issued to non-affiliated consultants resulting in stock compensation expense of \$109,000 and 10,000,000 shares of Common Stock was issued to Lewis S. Schiller, resulting in stock compensation expense of \$29,000.

In April 2002, the Company issued options and warrants to purchase an aggregate of 5,300,000 shares of common stock to non-affiliated consultants, resulting in stock compensation expense of \$157,000.

Page 10

In April of 2002, the Company (a) issued to Lewis S. Schiller, its chief executive officer a director and controlling shareholder, 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 (b) 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, these 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 provided for cashless exercise provisions which required the Company to calculate stock compensation expense on the underlying shares for each reporting period that the warrants or any portion thereof were outstanding. As of June 30, 2002, the fair value per share was greater than the exercise price and the resulting stock compensation expense of \$2,010,000 was charged to operations in the second quarter of 2002. As of September 30, 2002, the fair value per share was less than the exercise price and as a result the \$2,010,000 stock compensation expense charged in the second quarter of 2002 was reversed in the third quarter of 2002. On October 31, 2002, Lewis S. Schiller and Grazyna B. Wnuk agreed to remove the cashless exercise

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

provisions from these warrants and as a result there will be no future stock compensation expense related to such warrants.

In May 2002, the Company issued to Lewis S. Schiller an option to purchase 1,500,000 shares of common stock at an exercise price of \$.04 per share resulting in stock compensation expense of \$15,000.

The Company has elected to use the intrinsic value method of accounting for stock options in accordance with APB Opinion No. 25 and related interpretations issued to employees under its stock option plans whereby the amount of stock-based compensation expense is calculated as the difference between the fair market value and the exercise price on the date of issuance. For purposes of pro forma disclosures the amount of stock-based compensation as calculated using the fair value method of accounting for stock options issued to employees is amortized over the options' vesting period. For the three months ended September 30, 2003 and 2002 there were no differences between the intrinsic value method and the fair value method. The Company's pro forma information for the nine month periods ended September 30, 2003 and 2002 is as follows:

Nine Months Ended September 30,	2003	
Net loss as reported	\$ (4,552,000)	\$ (1,)
Deduct: Amount by which stock-based employee compensation as determined under fair value based method for all awards exceeds the compensation as determined under the intrinsic value method	-	(1,
Pro forma net loss under FAS No. 123	\$ (4,552,000)	\$ (2,
Basic and diluted net loss per common share:		
As reported		(0.01)
Pro forma under SFAS No. 123		(0.01)

### 8. Discontinued Operations

During 2002, the Company sold its operations which were not related to the security systems business for nominal consideration. The discontinued operations were conducted by the following subsidiaries: Sequential Electronic Systems, Inc. ("Sequential"), S-Tech, Inc. ("S-Tech"), Granite Technologies, Inc. ("Granite Technologies"), Shopclue.com, Inc. ("Shopclue"), Bizchase, Inc. ("Bizchase") and Starnet365.com, Inc. ("Starnet").

Except for the sale of Sequential and S-Tech, all of the discontinued operations were sold to nonaffiliated parties. Sequential and S-Tech were sold to a corporation owned by Lewis S. Schiller, the Company's president, chief executive officer and controlling stockholder. Since the liabilities of the subsidiaries that were transferred exceeded their respective assets, the Company recognized, during the third quarter of 2002, a gain from the disposition of discontinued operations of \$1,330,000. The Company continues to have contingent obligations relating to the discontinued operations, principally withholding tax liabilities of an aggregate of \$1,211,000, of which \$550,000 related to the operations of Sequential and

Edgar Filing: FINX GROUP INC - Form 10QSB

Page 11

S-Tech. In certain cases, the Company retained intellectual property rights; however, those rights have been fully expensed.

On June 30, 2003, the Company transferred its 51.1% ownership in FMX Corp. ("FMX") to Michael Schiller, who owned the remaining 49.9% of FMX. Michael Schiller is the brother of Lewis S. Schiller; however, Lewis S. Schiller has no direct or indirect equity interest in FMX. Since its inception, FMX has had no operating activities and all but \$25,000 of its liabilities was a note payable to the Company. As a result of the disposal of FMX, the Company recorded a loss on disposal of \$9,000 during the second quarter of 2003.

The loss from operations of discontinued operations for the three months ended September 30, 2003 and 2002 and the nine months ended September 30, 2003 and 2002 are summarized as follows:

Three Months Ended September 30,	2003		
Bizchase	\$	-	\$
Shopclue		-	
Granite		-	
Starnet		-	
S-Tech		-	
Sequential		-	
FMX		-	
Less intercompany transactions		-	
Net income from operations of discontinued segments	\$	-	\$

Nine Months Ended September 30,	2003		
Bizchase	\$	-	\$
Shopclue		-	
Granite		-	
Starnet		-	
S-Tech		-	
Sequential		-	
FMX		(99,000)	
Less intercompany transactions		112,000	
Net income (loss) from operations of discontinued segments	\$	13,000	\$

9. Commitments and Contingencies

Employment Agreements

Lewis S. Schiller has an employment agreement with the Company 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 for annual compensation of \$500,000. Mr. Schiller's contract may be extended an additional five years and also provides for an annual increase as

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

calculated as 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 of the term equal to 10% of the amount by which the greater of consolidated net income before income taxes or consolidated net operating 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.

Page 12

Grazyna B. Wnuk has an employment agreement with the Company whereby she is employed as the Company's vice-president. Ms. Wnuk's contract was executed in 2002. Ms. Wnuk's contract's initial expiration is April 28, 2009 and provides for annual compensation of \$200,000 per year. Ms. Wnuk's contract may be extended an additional five years and for an annual increase as calculated as 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 operating 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.

### Indemnifications

Pursuant to the terms of the stock purchase agreement to sell Sequential and S-Tech, the Company agreed to indemnify Lewis S. Schiller for any claims made against him regarding \$1.1 million of delinquent payroll taxes owed by Sequential and S-Tech at the time of their disposal and as of September 30, 2003, the Company has reserved \$550,000 against such potential claims. In addition, pursuant to separate indemnification agreements, the Company has agreed to indemnify Grazyna B. Wnuk and the former president of S-Tech for any claims made against them regarding the delinquent payroll taxes.

### Legal Proceedings

Although the Company is a party to certain legal proceedings that have occurred in the ordinary course of business, it 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, and the plaintiff has received a judgment for \$334,595, such amount having been accrued on the Company's books, plus interest.

### 10. Related Party Transactions

From April 7, 2003 through August 4, 2003, Trinity entered into four

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

separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 47,619 shares of common stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 237,190,476 shares of common stock and were transferred to the lenders.

At the time of each of the loans to Trinity by the non-affiliated lenders, Trinity lent the Company a substantial portion of the principal amount of the loan at 9% interest. Trinity defaulted on its loans to the lenders as a result of the Company's default on its loan to Trinity. When the lenders called the note and foreclosed on the collateral, Trinity cancelled the Company's note to it in exchange for shares of series B preferred stock equal to the number of such shares as Trinity transferred to the lenders. As a result of the defaults by the Company and Trinity, the Company issued to Trinity 5,747 shares of series B preferred stock, which is the same number of shares as Trinity converted and transferred to the lenders.

In addition, during the nine months ended September 30, 2003, Trinity converted an aggregate of 1,560 shares of Series B Preferred Stock into an aggregate of 39,000,000 shares of common stock.

Page 13

On March 17, 2003, the Company issued to Grazyna B. Wnuk, an officer and director, 9,006,976 shares of its common stock in payment for expenses of \$34,000, which she paid on behalf of the Company, the approximate value of the shares issued.

### 11. Subsequent Events

On October 14, 2003, the Company issued 7,000,000 shares of its common stock pursuant to stock grant rights to a non-affiliated consultant, resulting in stock compensation expense of \$28,000.

On November 12, 2003, the Company entered into an agreement to issue 2,500,000 shares of its common stock, as soon as such stock becomes available, in order to settle claims that have been made against the Company by a vendor of a former acquisition target of the Company. If after one year from the date that the 2,500,000 shares of common stock are issued, the shares do not have a fair market value of \$50,000, then the Company has agreed to pay to the vendor an amount calculated as \$50,000 less the fair market value of the 2,500,000 shares of common stock.

Page 14

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

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

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

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 "RISK FACTORS" AND "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" IN THE COMPANY'S FORM 10-KSB, AS AMENDED, FOR THE YEAR ENDED DECEMBER 31, 2002, INCLUDING, WITHOUT LIMITATION: WE HAVE NOT GENERATED REVENUES; 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; OUR EXECUTIVE OFFICER WILL RECEIVE A SIGNIFICANT BENEFIT IF WE GENERATE SIGNIFICANT CASH FLOW AND IF WE SELL ANY OF OUR OPERATIONS AT A PROFIT; 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 SIGNIFICANT ADDITIONAL FINANCING FOR OUR BUSINESS ACTIVITIES; WE HAVE GRANTED SIGNIFICANT BENEFITS UNDER CERTAIN EXISTING AND PROPOSED EMPLOYMENT AGREEMENTS; RAPID TECHNOLOGICAL CHANGE COULD RENDER CERTAIN OF OUR PRODUCTS AND PROPOSED PRODUCTS OBSOLETE OR NON-COMPETITIVE; WE HAVE NOT GENERATED REVENUE AND 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; THE LIABILITY OF OUR OFFICERS AND DIRECTORS TO US AND OUR SHAREHOLDERS IS LIMITED; DEPENDENCE ON KEY SUPPLIER; RELIANCE ON MANAGEMENT, KEY PERSONNEL AND CONSULTANTS; WE COULD BE SUBJECT TO POTENTIAL UNINSURED LIABILITY, THE RISKS RELATING TO LEGAL PROCEEDINGS AND OTHER FACTORS BOTH REFERENCED AND NOT REFERENCED IN THIS QUARTERLY REPORT ON FORM 10-QSB, INCLUDING THOSE SET FORTH UNDER "RISK FACTORS." 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 TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

Page 15

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of our financial statements, including the following: impairment of long-lived assets, including the valuation of the exclusive license agreement; accounting for expenses in connection with stock options and warrants; and accounting for income taxes. Our 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 financial statements from the assumptions, estimates and judgments used in the preparation



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

of our prior year's audited financial statements.

### Results of Operations

#### Revenues

In September 2002 we made a decision to focus our business exclusively on our Security Systems business and on October 18, 2002 we disposed of all non security system segments. Currently, our primary source of future revenues, if any, will be generated under our Georal license for the sale of Georal security products, including the GIL-2001 security door. Potential revenues may be generated from the marketing and distribution of the Georal security products to both those customers for which we have exclusive distribution rights and to others as to which we have non-exclusive rights. In December of 2002 TRW, Inc., now operating as Northrop Grumman Mission Systems, agreed to market and distribute the Georal security products. In March of 2003, Lockheed Martin Mission Systems also agreed to market and distribute the Georal security products. In April 2003, we entered into reciprocal marketing agreements with Advanced Biometric Security, Inc. ("ABS") which provide both us and ABS with non-exclusive marketing rights for each others security product lines. In July 2003, we entered into a representation agreement with Thacher Associates, LLC, who will market our security products. Many of the customers to whom we will seek to market the Georal security systems will be domestic and foreign government purchasers or 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, consulates and other governmental installations both in the U.S. and abroad. In October 2002, Georal International, Ltd. received broad patent approval for its security entrance system from the United States Patent Trademark Office (Patent 6,472,984). The patent received by Georal International, Ltd. covers the secured portal which is the subject of the Georal license and may provide barriers to entry and possibly eliminate competition from other portal manufacturers.

Our original marketing strategy was focused solely on sales of the GIL-2001 security door to the U.S. State Department. In 2002, we expanded our marketing efforts to include all customers under the exclusive distribution agreement and have built a sales team for such purpose. We recognize that on our own, we face competition from companies which have far greater financial resources and personnel which is why we made the strategic decision to establish our marketing channel relationships with large organizations, including Northrop Grumman Mission Systems and Lock Martin Mission Systems. 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 Georal license.

We also offer Secured Card Solutions from our development and sale of software programs for Device Management and Smart Card applications. We have provided Virginia Commonwealth University with two of our Secured Card software solutions - the "Secured Recreational Sports Solution" and "The Secured Card Solution". "The Secured Recreational Sports Solution" which currently serves Virginia Commonwealth University from three locations offering a variety of fitness, aquatics and intramurals. The activities are offered to all students, faculty, and university and hospital employees. The Secured Recreational Sports Solution's database is integrated with the VCU card database for single university identification. The Secured Recreational Sports Solution handles all check-in of members, locker

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

assignment and equipment check-in and check-out. It also keeps track of member billing and payroll deduction. Further, it handles member suspensions and automatic emailing of special events. The Secured Sports Recreation Solution application is written using the new Microsoft.NET architecture. We have also entered into a services and support agreement with Florida International University for the installation, support and use of our Secured Recreational Sports Solution. During the three and nine months ended September 30, 2003, we generated revenues of \$20,000 and \$32,000, respectively, from the contracts with Virginia Commonwealth University and Florida International University.

### Operating Expenses

For the three and nine month comparative periods ending September 30, 2003 and 2002 our significant operating expenses were executive payroll, and marketing expense and professional fees.

Executive payroll is currently \$723,000 annually and approximated \$193,000 and \$175,000 for the respective three month periods ended September 30, 2003 and 2002 and was \$579,000 and \$513,000 for the respective nine month periods ended September 30, 2003 and 2002. As of September 30, 2003, none of the salary owed to Lewis S. Schiller, our chief executive officer, has been paid and he is owed cumulative salary of \$1.8 million. As of September 30, 2003, \$66,000 of salary owed to Grazyna B. Wnuk, our vice-president, has been paid and she is owed cumulative salary of \$672,000.

Expenses associated with our marketing, which currently are \$1.1 million on an annual basis, represent consulting fees for the consultants who perform such functions and approximated \$354,000 and \$263,000 for the respective three month periods ended September 30, 2003 and 2002 and approximated \$941,000 and \$743,000 for the respective nine month periods ended September 30, 2003.

Professional fees for legal and accounting services currently approximate \$455,000 annually, and approximated \$123,000 and \$285,000, respectively, for the three month periods ended September 30, 2003 and approximated \$320,000 and \$380,000, respectively, for the nine month periods ended September 30, 2003.

The value assigned to the Georal License of approximately \$3 million was incurred in 2002 and is being amortized over of the life of the Georal License resulting in ongoing annual amortization expense of \$244,000. Such amortization for the three months ended September 30, 2003 and 2002 was \$61,000 and \$26,000, respectively, and for the nine months ended September 30, 2003 was \$184,000 and \$84,000, respectively.

During 2003 and 2002, we have compensated our employees and consultants with stock options and stock grants that have been registered on Form S-8 and unregistered stock purchase warrants. During the nine months ended September 30, 2003, we issued an aggregate of 303,603,168 shares of common stock pursuant to the exercise of stock options and stock grants and issued warrants to purchase an aggregate of 160,000,000 shares of common stock. Stock-based compensation related to the issuances of the stock options, stock grants and stock purchase warrants was \$1.6 million and \$3.037 million, respectively, for the three and nine months ended September 30, 2003 and \$171,000 for nine months ended September 30, 2002.

In 2002, we issued to Lewis S. Schiller and Grazyna B. Wnuk, warrants to purchase 20,000,000 and 10,000,000 shares, respectively, at \$0.043 per share, the fair market value at date of issuance. The warrants provided for cashless exercise provisions which required the calculation stock compensation expense on the underlying shares for each reporting period that the warrants or any portion thereof were outstanding. As of June 30, 2002, the fair value per share was greater than the exercise price and the resulting stock compensation expense of

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

\$2,010,000 was charged to operations in the second quarter of 2002. As of September 30, 2002, the fair value per share was less than the exercise price and as a result the \$2,010,000 stock compensation expense charged in the second quarter of 2002 was reversed in the third quarter of 2002. On October 31, 2002, Lewis S. Schiller and Grazyna B. Wnuk agreed to remove the cashless exercise provisions from these warrants and as a result there will be no future stock compensation expense related to such warrants.

Page 17

We incur interest expense at an annual rate of 9% on related party notes payable. For the three month periods ended September 30, 2003 and 2002, such interest was \$80,000 and \$59,000, respectively, and for the nine month periods ended June 30, 2003 was \$53,000 and \$60,000, respectively. The related party notes payable are the result of advances from Trinity Group-I, Inc., our controlling shareholder, advances from Lewis S. Schiller, our Chief Executive Officer and Chairman of the Board, advances from Grazyna B. Wnuk, an officer and director of the Company, a loan from a former director, and advances from family members of Lewis S. Schiller. Total notes payable owed to related parties as of September 30, 2003 approximated \$1.1 million on which accrued and unpaid interest approximates \$753,000. All of the related party notes and interest are payable upon demand.

As a result of our decision to focus our business exclusively on our Security Systems business we disposed of all non security system segments resulting in a loss on disposal of \$9,000 for the nine months ended September 30, 2003 and a gain on disposal of \$1.3 million during the three and nine months ended September 30, 2003. The income (loss) from the operations of discontinued segments was \$174,000 for the three months ended September 30, 2003 and was \$13,000 and (\$382,000) for the respective nine month periods ended September 30, 2003 and 2002.

### Financial Condition - Liquidity and Capital Resources

As of September 30, 2003, our working capital deficiency approximates \$7.2 million, representing an increase of \$2.7 million from December 31, 2002. Effective September 30, 2002, Lewis S. Schiller, the Company's chief executive officer and chairman of the board, agreed to defer payment of his salary until January 1, 2004, and Trinity, the Company's largest stockholder which is wholly owned by Mr. Schiller, agreed to defer, until January 1, 2004, payment of accrued interest on notes payable to Trinity and payment of accrued dividends on preferred stock held by Trinity. Such amounts were presented as long-term liabilities as of December 31, 2002. As of September 30, 2003, the remaining deferral period is less than twelve months and such amounts are presented as current liabilities. During the nine months ended September 30, 2003 we used \$796,000 for our continuing operating activities. Sources of funds for the nine months ended September 30, 2003 were net advances from related parties of \$446,000 and proceeds from the exercise of stock options of \$352,000.

Since April 1999, our primary source of funding has been Trinity. From April 7, 2003 through August 4, 2003, Trinity entered into four separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 47,619 shares of common

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

stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 237,190,476 shares of common stock and were transferred to the lenders.

At the time of each of the loans to Trinity by the non-affiliated lenders, Trinity lent the Company a substantial portion of the principal amount of the loan at 9% interest. Trinity defaulted on its loans to the lenders as a result of the Company's default on its loan to Trinity. When the lenders called the note and foreclosed on the collateral, Trinity cancelled the Company's note to it in exchange for shares of series B preferred stock equal to the number of such shares as Trinity transferred to the lenders. As a result of the defaults by the Company and Trinity, the Company issued to Trinity 5,747 shares of series B preferred stock, which is the same number of shares as Trinity converted and transferred to the lenders.

On March 17, 2003, the Company issued to Grazyna B. Wnuk, an officer and director, 9,006,976 shares of its common stock in payment for expenses of \$34,000, which she paid on behalf of the Company, the approximate value of the shares issued.

Pursuant to the terms of the September 30, 2002 stock purchase agreement to sell Sequential Electronic Systems, Inc. and S-Tech, Inc., we have agreed to indemnify Lewis S. Schiller for any claims made against him regarding \$1.1 million of delinquent payroll taxes owed by Sequential Electronic

Page 18

Systems, Inc. and S-Tech, Inc. at the time of their disposal. A reserve of \$550,000 has been recorded by management based upon our best estimate of the ultimate liability. In addition, pursuant to separate indemnification agreements, the Company has agreed to indemnify Grazyna B. Wnuk and the former president of S-Tech for any claims made against them regarding the delinquent payroll taxes.

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, we have generated nominal revenues and we have a history of operating losses. As of September 30, 2003 we have a working capital deficiency of \$7.2 million and a capital deficiency of \$4.5 million. Management is currently seeking additional financing; however we can give no assurance that such financing will be consummated or that any financing which we receive will be adequate. Further, in view of our stock price, any financing is likely to result in substantial dilution to our stockholders. Our continuation in business is dependent upon our ability to obtain financing, and to use the proceeds from any such financing to increase our business to achieve profitable operations. The accompanying consolidated financial statements do not include any adjustments that would result should we be unable to continue as a going concern.

### PART II OTHER INFORMATION

#### Item 3. Controls and Procedures

Our chief executive officer, who is also our chief accounting officer, has supervised and participated in an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report, and, based on his evaluation, he believes that our disclosure controls and procedures, as defined in Rule 13a-14(c) of the Securities Exchange Act of 1934, as amended, are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities

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

Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. As a result of the evaluation, there were no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 31.1 Chief Executive Officer Certification.
- 31.2 Chief Financial Officer Certification
- 32 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Page 19

### SIGNATURES

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

The FINX GROUP, INC.

/S/ \_\_\_\_\_ Chief Executive Officer and Director November 18, 2003  
Lewis S. Schiller (Principal Executive and  
Accounting Officer)

Page 20

Exhibit 31.1

### CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Lewis S. Schiller, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of The Finx Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the small business issuer and

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

have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

November 18, 2003

By /S/ Lewis S. Schiller  
Chief Executive Officer

Page 21

Exhibit 31.2

### CHIEF FINANCIAL OFFICER CERTIFICATION

I, Lewis S. Schiller, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of The Finx Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the small business issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

November 18, 2003

By /S/ Lewis S. Schiller  
Chief Financial Officer

Page 22

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Edgar Filing: FINX GROUP INC - Form 10QSB

In connection with the Quarterly Report of The Finx Group, Inc., (the "Company") on Form 10-QSB for the period ending September 30, 2003, 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 certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that (based on their knowledge): 1) the Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities 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

November 18, 2003